

State of Nebraska

Comprehensive Annual Financial Report

Year Ended June 30, 2006



Dave Heineman
Governor

Department of Administrative Services

Gerry Oligmueller
Acting Director

Paul Carlson
State Accounting Administrator

Cover: Artistry of the State Quarter



Dave Heineman
Governor

STATE OF NEBRASKA

OFFICE OF THE GOVERNOR
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December 22, 2006

Members of the Legislature
Citizens of the State of Nebraska

It is my pleasure to submit Nebraska's Comprehensive Annual Financial Report for fiscal year 2006.

This report is an important part of our efforts to provide timely and accurate financial reporting to ensure proper handling of taxpayers' money. It provides a complete picture of the State's financial status and is an excellent means of meeting our continuing disclosure responsibilities in accordance with governmental reporting standards.

Our ability to manage our fiscal affairs is demonstrated by the unqualified audit opinion that follows. I am also proud that the 2005 report submitted to the Government Finance Officers Association was, for the fifteenth consecutive year, awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting. I am confident the 2006 report will also receive this distinction.

I would like to thank the Department of Administrative Services for its commitment in dealing with the complex accounting issues involved in preparing this report, as well as all the state agencies for their cooperation in gathering the necessary information.

Sincerely,

Dave Heineman
Governor

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2006

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INTRODUCTORY SECTION

SELECTED STATE OFFICIALS

As of June 30, 2005

EXECUTIVE

Dave Heineman

Governor

Rick Sheehy

Lieutenant Governor

Jon Bruning

Attorney General

Kate Witek

Auditor of Public Accounts

John A. Gale

Secretary of State

Ron Ross

State Treasurer

JUDICIAL

Supreme Court of Nebraska

John V. Hendry, Chief Justice

William M. Connolly, Justice

John M. Gerrard, Justice

Michael McCormack, Justice

Lindsey Miller-Lerman, Justice

Kenneth C. Stephan, Justice

John F Wright, Justice

LEGISLATIVE

Kermit A. Brashear

Speaker of the Legislature

Nebraska Unicameral (49 Senators)



Dave Heineman
Governor

STATE OF NEBRASKA

DEPARTMENT OF ADMINISTRATIVE SERVICES
Gerry A. Oligmueller
Acting Director
Suite 1315, State Capitol
Lincoln, Nebraska 68509-4664
Phone (402) 471-2331

December 22, 2006

The Honorable Dave Heineman, Governor
Members of the Legislature
Citizens of the State of Nebraska

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska (the "State") for the fiscal year ended June 30, 2006. This report is the primary means of reporting the State government's financial activities. The State of Nebraska's financial statements have been audited by the State of Nebraska Auditor of Public Accounts. The goal of the independent audit was to provide reasonable assurance that the financial statements of the State for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the State's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP). The independent auditor's report is presented as the first component of the financial section of this report. The CAFR has been prepared in conformance with Governmental Accounting Standards Board (GASB) statements 34 and 35, and other related statements. This reporting model's objective is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

The independent audit of the financial statements of the State was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the State's separately issued Single Audit Report.

The CAFR is presented in three sections. (1) The Introductory Section contains this letter of transmittal and some information about the State and its operations. (2) The Financial Section contains Management's Discussion and Analysis, Government Wide Financial Statements, Fund Financial Statements for Governmental Funds, Proprietary Funds, Fiduciary Funds, and Combining Statements for Major Component Units. The Financial Section also includes the Notes to the Financial Statements, Required Supplementary Information and various combining statements. (3) The Statistical Section contains selected financial and demographic information, generally presented on a multi-year basis.

The CAFR consists of management's representations concerning the finances of the State of Nebraska. The State Accounting Division of the Department of Administrative Services assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with GAAP for governments. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The State was admitted to the Union as the thirty-seventh state in 1867. Nebraska's government is divided into three branches: legislative, executive and judicial. Nebraska is the only state with a Unicameral Legislature, which has 49 non-partisan members. The chief executive is the governor, who is elected for a four-year term. Within the executive branch are various departments and agencies that perform a variety of functions. Since Nebraska's Constitution generally allows no indebtedness, government expenses of such departments and agencies must be met on a pay-as-you-go basis. The State provides a full range of services including: the construction and maintenance of highways and infrastructure, education, social and health services, public safety, conservation of natural resources, economic development, and recreation facilities and development. An organizational chart of the State is shown on page 10.

The State reporting entity reflected in this CAFR is described more fully in Note 1.B. to the financial statements. It should be noted that the reporting entity includes the familiar government activities plus two component units, the University of Nebraska and the State College System.

Budgetary control of state expenditures is maintained chiefly by three processes. First, a budget is required to be adopted through passage of appropriation bills by the Legislature. Second, the appropriated funds are allocated by program and fund type and are controlled by the executive branch through an allotment process. The Legislature may also enact a supplemental appropriation bill and other appropriation bills as it deems necessary. Finally, the State's accounting system is designed to budget check each expenditure to ensure the appropriation is not exceeded.

Budget-to-actual comparisons are provided in this CAFR for various categories of General Fund revenues and appropriated annual budgets. This comparison is presented on page 66 as part of the Required Supplementary Information to the basic financial statements for the governmental funds. Budget-to-actual comparisons for Cash Funds, Construction Funds, Federal Funds, and Revolving Funds are also presented as Required Supplementary Information on pages 67 through 70.

FACTORS AFFECTING FINANCIAL CONDITION

In order to better understand the information presented in the basic financial statements, such information should be considered from the broader perspective of the specific environment within which the State operates.

Current Revenue Outlook

The General Fund operations of the State are almost entirely dependent upon the income and sales taxes the State receives each year. Such taxes represent over 93 percent of all General Fund revenues. Net revenue from income taxes and sales taxes from all funds for the fiscal year ended June 30, 2005 increased \$301 million over the prior year, due to the steady, solid growth in Nebraska in all areas: jobs, income and revenue. In finalizing the biennium budget for the fiscal years ending June 30, 2006 and June 30, 2007, the Legislature, as required by the State Constitution, balanced the budget.

For the year ended June 30, 2006 there was a continued increase in taxes collected, as net tax revenue from all taxes, on a fund basis, exceeded the prior year by \$212 million. Income and sales taxes from all funds increased \$227 million over last year, chiefly due to a \$192 million jump in income taxes collected. This reflects an improved economy, more capital gains being reported and increased salaries being paid. Employment continues to have steady, moderate growth.

For the fiscal year ending June 30, 2006, the State's General Fund ended the fiscal year with an \$827 million cash and investments balance.

State Economy

The Bureau of Business Research of the University of Nebraska-Lincoln, together with the Nebraska Business Forecast Council, are optimistic on Nebraska's economic future, stating that the Nebraska economy should expand steadily with moderate growth. Total net taxable retail sales growth should continue to be supported by solid growth in employment and non-wage income. Sales tax and income tax revenue will also benefit by the increases in employment in higher wage sectors such as manufacturing and the resulting increases in personnel income.

	ACTUAL			PROJECTED		
	2003	2004	2005	2006	2007	2008
Nonfarm Employment:						
Annual Totals	914,200	922,300	935,800	949,900	966,800	984,800
Growth Rates	0.3%	0.9%	1.5%	1.5%	1.8%	1.9%
Nonfarm Personal Income:						
Annual Totals (in millions \$)	51,409	53,896	56,325	59,817	63,371	67,111
Growth Rates	3.4%	4.8%	4.5%	6.2%	5.9%	5.9%
Net Taxable Retail Sales						
Growth Rates:						
Total	3.1%	6.9%	3.5%	1.8%	3.2%	4.3%
Motor Vehicle Sales	-1.1%	-0.3%	-4.6%	-4.5%	0.0%	5.2%
Non-motor Vehicles Sales	3.8%	8.0%	4.6%	2.6%	3.6%	4.2%

Cash Management

All cash is required to be deposited in the State Treasury. At the direction of the State Treasurer, the State Investment Officer invests all cash in the Operating Investment Pool (OIP). This pool is comprised of some short-term investments and many medium-term investments. The OIP is reflected as cash and investments on the State's financial statements. Interest earnings are credited on a monthly basis to each fund eligible to earn interest. All interest earnings not credited to other funds are deposited in the General Fund.

At June 30, 2006, there was \$2.2 billion invested in the OIP. This was invested as follows: 26 percent in government securities; 23 percent in corporate bonds; 39 percent in Federal agencies; 7 percent in commercial paper; 3 percent in certificates of deposits; and 2 percent in money market funds. For the fiscal year ended June 30, 2006, the average daily balance of \$2.07 billion returned \$86 million, a 4.16% yield. This yield is an increase from the 2005 yield of 3.54%.

State law requires that all public funds deposited in banks be secured by having each such bank maintaining, at all times, an aggregate amount of securities of at least 102 percent of the amount on deposit, less the \$100,000 insured by the Federal Deposit Insurance Corporation (FDIC). It is the State's policy to continually monitor the clearing and depository banks for compliance with this law.

Risk Management

Workers' compensation, employee health coverage, employee liability and general liability are self-insured. Commercial insurance coverage has been purchased for automobile liability, real and personal property damage, employee life coverage, and employees' errors or omissions. Note 13 of the Notes to the Financial Statements discusses the State's risk management activities in more detail.

Retirement Systems

Total net assets of the State's pension trust funds reached \$7.8 billion by June 30, 2006, compared to \$7.1 billion on June 30, 2005. These are the assets of the three defined benefit plans (School, Judges and State Patrol plans), two defined contribution and cash balance plans (County and State Employees plans) and the State Employees' Deferred Compensation Plan that are administered by the State. See Note 11 to the Financial Statements for a detailed analysis of these plans.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its CAFR for the fiscal year ended June 30, 2005. This was the fifteenth consecutive year that the State has received this prestigious award. In order to be awarded a Certificate of Achievement, the State published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report continues our commitment to comprehensive disclosure of the State's financial condition. We are committed to issuing reports that are informative and meet governmental accounting standards. Reports that meet these standards provide the reader with an opportunity to make more informed judgments about the government's financial position and results of operations.

The 2006 CAFR represents our commitment to this goal. We wish to express our appreciation to the accounting staff of the State Accounting Division of the Department of Administrative Services and the budget and accounting staff throughout State government for their assistance in the preparation of this report.

Questions or requests for additional information related to this report can be directed to the State Accounting office at (402) 471-2581.

Respectfully submitted,

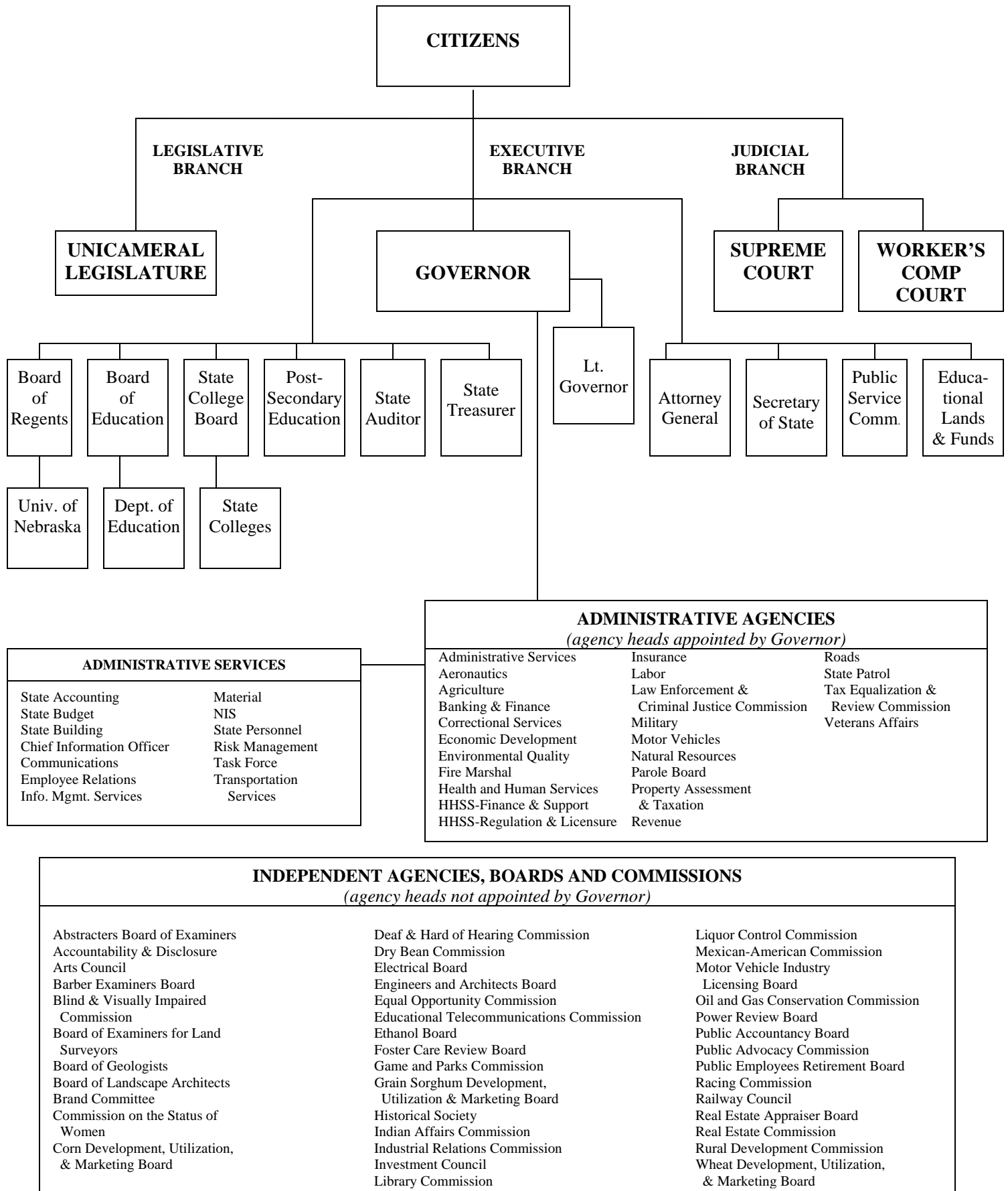
A handwritten signature in black ink, appearing to read "Gerry A. Oligmueller".

Gerry Oligmueller
Acting Director, Department of
Administrative Services

A handwritten signature in black ink, appearing to read "Paul Carlson".

Paul Carlson
State Accounting Administrator

Nebraska State Government Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Nebraska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director





FINANCIAL SECTION

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



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Independent Auditors' Report

Kate Witek
State Auditor
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The Honorable Governor,
Members of the Legislature and
Citizens of the State of Nebraska:

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2006, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents on the preceding page. These financial statements are the responsibility of the State of Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nebraska State College System's foundations, the University of Nebraska, the College Savings Plan, and the NETC Leasing Corporation. The State College System's foundations and the University of Nebraska represent 96% of both the assets and revenues of the aggregate discretely presented component units' information. The College Savings Plan and the NETC Leasing Corporation represent 12% and 20% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nebraska State College System's foundations, the University of Nebraska, the College Savings Plan, and the NETC Leasing Corporation is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Nebraska State College System's foundations, the College Savings Plan, and the NETC Leasing Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 15 to the financial statements, the State of Nebraska adopted in 2006 the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; GASBS No. 44, *Economic Condition Reporting: The Statistical Section---an amendment of NCGA Statement 1*; GASBS No. 46, *Net Assets Restricted by Enabling Legislation---an amendment of GASB Statement No. 34*; and GASBS No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006, on our consideration of the State of Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 16 through 29, the Budgetary Comparison Schedules on pages 66 through 70; the Information About Infrastructure Assets Reported Using the Modified Approach on page 72; and the Schedules of Funding Progress and Three-Year Trend Information pages 62 through 63, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Nebraska's basic financial statements. The combining statements within the financial section as listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respect, in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Lincoln, Nebraska
December 21, 2006

Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

The State of Nebraska (State) implemented four new standards in 2006 required by the Governmental Accounting Standards Board (GASB): Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which has no immediate effect; Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which resulted in significant changes to the statistical information presented at the end of the CAFR; Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which caused more assets to be disclosed as restricted, and Statement No. 47, *Accounting for Termination Benefits*, which does not affect our reporting because the State does not provide such benefits.

A comparative analysis of government-wide data for the last two years is presented in this analysis. Additionally, we are presenting an analysis of activity in the State's funds for the fiscal year ended June 30, 2006 along with an analysis of the State's capital assets and long-term debt related to capital assets.

FINANCIAL HIGHLIGHTS

Government-Wide:

The assets of the State exceeded its liabilities at June 30, 2006 by \$9.8 billion (presented as "net assets" in the CAFR). The majority of the net assets are represented by the investment in the State's infrastructure and other capital assets, which cannot be used to fund ongoing activities of the State. Of the net assets, unrestricted net assets was reported as \$711 million, most of which is available to be used to fund future needs of the State. The primary government's net revenues exceeded net expenses for 2006 by \$568 million resulting in an increase in net assets. The increase in net assets was primarily a result of a continually improving economy providing an increase in taxes collected coupled with a less than budgeted increase of expenditures from 2005.

Fund Level:

General Fund receipts for 2006 were \$260 million above the original budgeted amount and above the final budget by \$74 million. Expenditures were \$154 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$289 million in excess revenues prior to \$6 million in other financing uses resulting in an ending fund balance on June 30, 2006 of \$692 million. Other governmental funds expenditures almost equaled receipts; however, such funds received \$40 million in other financing sources (namely net transfers in) increasing such fund balances at June 30, 2006 to \$1,638 million.

The \$273 million of net assets of the Unemployment Compensation Fund represents eighty-eight percent of the proprietary funds. Such fund had a \$62 million increase in net assets for 2006 (compared to a \$28 million increase in 2005) due to a \$14 million decrease in unemployment claims, and a \$21 million increase in charges for services due to a rate increase and a 14% increase in the taxable wage base.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled \$509 million at June 30, 2006, which is a significant decrease from the prior year, chiefly due to the settlement payment of a \$146 million claim related to a low-level waste lawsuit. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, unemployment compensation, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due employees when they retire.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This CAFR also contains other supplementary information (e.g., budgetary schedules and combining financial statements) in addition to the basic financial statements. These components are described below:

Government-Wide Financial Statements

These statements provide a broad view of the State's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the State's financial position. The statements are prepared using the accrual basis of accounting. This means all revenues and expenses related to the fiscal year are recorded in the statements, even if cash has not been received or paid. If taxes are owed to the State but not yet received, such transaction is recorded as an asset (a receivable) and revenue to the State. Likewise, if the State owes for vacation time, but has not yet paid the worker for such vacation earned, then the liability and payroll expense is recorded. The government-wide financial statements include two statements, the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* (page 33) presents all the State's assets and liabilities with the difference between the two reported as "Net Assets." Changes in net assets over time may indicate the relative health of the State and this statement will assist users in assessing whether or not the State's financial position is improving or deteriorating.

The *Statement of Activities* (pages 34 and 35) presents information showing how the State's net assets changed during the reported year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows, using the accrual basis of accounting discussed earlier.

Both of these statements have separate sections for three different types of State programs or activities. These sections are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental Activities and Business-type Activities are combined to report on what is termed Primary Government activities, which is separate and distinct from the activity of the component units. Fiduciary Funds, which include the Pension Funds, are not included in the Government-wide Financial Statements.

Primary Government

GOVERNMENTAL ACTIVITIES – Activities in this section are mostly supported by taxes and federal grants. All General Fund activity is included here. Governmental activities represent over 96% of all activity of the primary government. It includes general government; education; health and human services; public safety; transportation; regulatory services; and economic development and assistance.

BUSINESS-TYPE ACTIVITIES – Functions reported in this section include those activities whereby the State charges fees and other charges to external users of the State’s services and purchasers of State’s goods in order to recover all or a significant portion of the State’s operating costs related to these activities, much like a private business. Such activities are unemployment compensation services, lottery tickets, premium surcharges for excess liability coverage, and the sales and services provided by Cornhusker State Industries.

Component Units

DISCRETELY PRESENTED COMPONENT UNITS – These are separate organizations for which the State has financial accountability but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State’s only two discretely presented component units. While presented in this report, each of these two units have separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

This is the second set of financial statements presented in the CAFR. These statements are different from the government-wide statements in that some of these statements use a different accounting approach and focus on the near-term inflows and outflows of the State’s operations. As previously noted, these Statements are commonly referred to as GAAP Fund Statements, as they are prepared in accordance with generally accepted accounting principles. The Fund Financial Statements (which begin on page 36) provide detailed information about the State’s major funds. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. The State’s funds are divided into three categories – Governmental Funds, Proprietary Funds and Fiduciary Funds. It is important to note that each of these three fund categories use different accounting approaches and should be analyzed differently.

Governmental Funds Financial Statements – Most of the basic services provided by the State are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, the Governmental Funds Financial Statements use modified accrual accounting, which limits assets to cash and all other financial assets that can readily be converted into cash. This is different from the governmental activities recorded in the government-wide financial statements that use full accrual accounting. These fund statements provide a detailed short-term view of the State’s finances that assist the reader in determining whether or not there will be adequate financial resources to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader can better understand the long-term impact of the State’s near-term financing decisions. To aid the reader in such analysis, reconciliations are provided between the Government-wide Financial Statements and the Governmental Funds Financial Statements (see pages 37 and 39).

The State of Nebraska’s governmental funds include five major funds: the General Fund, the Highway Fund, the Federal Fund, the Health and Social Services Fund and the Permanent School Fund. Non-major special revenue, capital project and other permanent funds are also included in the governmental funds.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Thus, when the State charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds consist of both Enterprise Funds (services provided to outside customers) and Internal Service Funds (services provided to other State agencies). Proprietary funds utilize accrual accounting, the same method used by private businesses. Therefore, the net assets reported in these statements as Enterprise Funds will be identical to the net assets reported in the net assets for business-type activities in the Government-wide Financial Statements. However, because the Internal Service Funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements.

Fiduciary Funds Financial Statements – Whenever the State receives funds on behalf of others, it is acting in a fiduciary capacity or trustee of those funds belonging to others. Thus, assets in these funds are restricted as to use and do not represent discretionary assets that the State could use to finance its operations. They are presented in these statements only for the purpose to indicate that the State has responsibility for these assets. For that reason, such assets are not included in the government-wide financial statements. Fiduciary funds are reported on the accrual basis of accounting.

The State's principal fiduciary fund is the Pension Fund, which contains retirement contributions held by the State for state employees, county employees and public school employees (see Note 11 to the financial statements). There are also Private-Purpose Trust Funds whereby the State has control of unclaimed property and funds held for inmates and clients or wards of the State. The State also has Agency Funds whereby the State holds funds earmarked as aid for other political subdivisions.

Component Units Financial Statements

As mentioned in the discussion of the Government-wide Financial Statements, the State has included the net assets and activities of the University of Nebraska and the Nebraska State College System in a single column of such statements, labeling them as discretely presented component units. We have provided separate, but brief, component unit statements to allow the reader to analyze each of these two units separately.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found immediately following the component units' financial statements beginning on page 48.

Required Supplementary Information

Following the basic financial statements, and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information includes budgetary comparison schedules reconciling statutory fund balances used for budgetary purposes to the fund balances determined by GAAP used in the Fund Financial Statements for the General Fund, Cash Funds, Construction Funds, Federal Funds, and Revolving Funds. Other information included is the condition and maintenance data regarding certain aspects of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes the combining statements for non-major governmental, proprietary and fiduciary funds. These funds are summarized by fund type and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the Governmental Fund Financial Statements. Also presented is a statistical section providing State data.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled \$11,550 million at June 30, 2006 as compared to \$11,026 at June 30, 2005. As total liabilities only totaled \$1,722 million, net assets amounted to \$9,828 million as of June 30, 2006. As of June 30, 2005, these amounts were \$1,767 million and \$9,259 million, respectively. By far the largest portion of the State of Nebraska's net assets (74 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, etc.). The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Restricted net assets are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. They also are not available for future spending.

For Governmental Activities other than capital assets, the majority of the restricted net assets consists of the Permanent School Trust, the Tobacco Settlement Trust, the Intergovernmental Trust and the loans to political subdivisions for drinking water and clean water projects.

The net assets for business-type activities represents chiefly cash set aside for future unemployment compensation benefits.

STATE OF NEBRASKA Net Assets as of June 30 (in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and Other						
Non-current Assets	\$ 3,848	\$ 3,539	\$ 386	\$ 324	\$ 4,234	\$ 3,863
Capital Assets	7,310	7,156	6	7	7,316	7,163
Total Assets	11,158	10,695	392	331	11,550	11,026
Non-current Liabilities	456	604	53	54	509	658
Other Liabilities	1,185	1,077	28	32	1,213	1,109
Total Liabilities	1,641	1,681	81	86	1,722	1,767
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,269	7,110	6	6	7,275	7,116
Restricted	1,567	1,100	275	213	1,842	1,313
Unrestricted	681	804	30	26	711	830
Total Net Assets	\$ 9,517	\$ 9,014	\$ 311	\$ 245	\$ 9,828	\$ 9,259

Over 77% of the State's non-capital assets consist of cash and investments. It should be noted that \$556 million in 2006 and \$489 million in 2005 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.) Receivables, chiefly from taxes and the federal government, represent 22% of the non-capital assets.

Since the State's Constitution generally prohibits the State from incurring debt, the Statement of Net Assets presents few long-term liabilities (shown as noncurrent liabilities). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, unemployment compensation, employee health insurance (\$140 million for 2006 and \$290 million for 2005), Medicaid claims for \$197 million (\$181 million in 2005) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$113 million in 2006 (\$111 million for 2005). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 9 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds. Both of these entities are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State (See Note 1.B. to the Financial Statements). Debt related to capital assets totaled \$42 million at June 30, 2006.

The change in net assets of Governmental Activities, other than capital assets, was due chiefly to a \$467 million increase in restricted net assets. Much of this was due to a reclassification of certain special revenue funds from unrestricted to restricted. Additionally, there was a large increase in unrestricted net assets, prior to the reclassification, due to the large increase in revenues over expenses.

At the end of June 30, 2006, the State is able to report positive balances in all of the three categories of net assets.

Changes in Net Assets

The condensed financial information on the following page was derived from the Government-wide Statement of Activities and reflects how the State's net assets changed during the year. Following that table is management's analysis of the changes in net assets for 2006, analyzing both the governmental activities and the business-type activities.

STATE OF NEBRASKA
CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30
(in millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
REVENUES						
Program Revenues						
Charges for Services	\$ 492	\$ 528	\$ 291	\$ 258	\$ 783	\$ 786
Operating Grants and Contributions	2,152	2,121	-	-	2,152	2,121
Capital Grants and Contributions	4	12	-	-	4	12
General Revenues						
Taxes	3,777	3,566	-	-	3,777	3,566
Unrestricted Investment Earnings	93	118	10	13	103	131
Miscellaneous	-	6	-	-	-	6
Total Revenues	<u>6,518</u>	<u>6,351</u>	<u>301</u>	<u>271</u>	<u>6,819</u>	<u>6,622</u>
EXPENSES						
General Government	309	321	-	-	309	321
Conservation of Natural Resources	100	95	-	-	100	95
Culture - Recreation	27	29	-	-	27	29
Economic Development and Assistance	87	80	-	-	87	80
Education	1,318	1,225	-	-	1,318	1,225
Higher Education - Colleges and Universities	482	451	-	-	482	451
Health and Social Services	2,594	2,495	-	-	2,594	2,495
Public Safety	289	282	-	-	289	282
Regulation of Business and Professions	152	139	-	-	152	139
Transportation	697	716	-	-	697	716
Interest on Long-term Debt	3	3	-	-	3	3
Unemployment Compensation	-	-	101	114	101	114
Lottery	-	-	83	77	83	77
Excess Liability	-	-	12	2	12	2
Cornhusker State Industries	-	-	11	11	11	11
Total Expenses	<u>6,058</u>	<u>5,836</u>	<u>207</u>	<u>204</u>	<u>6,265</u>	<u>6,040</u>
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	460	515	94	67	554	582
Transfers	28	26	(28)	(26)	-	-
Contributions to Permanent Fund Principal	15	16	-	-	15	16
Increase (Decrease) in Net Assets	503	557	66	41	569	598
Net Assets - Beginning	9,014	8,457	245	204	9,259	8,661
Net Assets - Ending	<u>\$ 9,517</u>	<u>\$ 9,014</u>	<u>\$ 311</u>	<u>\$ 245</u>	<u>\$ 9,828</u>	<u>\$ 9,259</u>

Governmental Activities

Governmental activities increased the State's net assets by \$503 million in 2006 (\$557 million in 2005). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,648 million and were used to partially offset program expenses of \$6,058 million, leaving net expenses of \$3,410 million. Only 5% of total expenses were spent on general government expenses. General taxes, investment earnings, contributions to the permanent fund principal and transfers of \$3,913 million were used to more than cover the remaining costs of the programs as shown below.

Program revenues basically remained unchanged from 2005. Tax revenues were up \$211 million, which was just short of offsetting the increase in program expenditures, net of revenues. Investment earnings decreased \$25 million due to \$13 million of investment losses (chiefly unrealized losses on long-term investments), as opposed to a \$45 million gain in 2005. This \$58 million turnaround more than offset the \$33 million gain in investment income, which was the result of more funds being invested at higher interest rates. These were the chief reasons net assets increased \$54 million less than in 2005.

Program expenditures, net of revenue, increased by \$235 million in 2006, as shown by the following table:

GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenditures, Net of Revenue	2006	2005
General Government	\$ (203)	\$ (247)
Conservation of Natural Resources	(24)	(21)
Culture - Recreation	(8)	(9)
Economic Development and Assistance	(23)	(14)
Education	(1,027)	(927)
Higher Education - Colleges and University	(482)	(451)
Health and Social Services	(1,063)	(1,001)
Public Safety	(195)	(180)
Regulation of Business and Professions	(37)	(14)
Transportation	(345)	(308)
Interest on Long-Term Debt	(3)	(3)
Subtotal	(3,410)	(3,175)
General Revenues		
Taxes	3,777	3,566
Unrestricted Investment Earnings	93	118
Miscellaneous	-	6
Transfers	28	26
Contributions to Permanent Fund Principal	15	16
Increase (Decrease) in Net Assets	\$ 503	\$ 557

Four functional areas of the State comprise 85% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Together they also comprise 97% of the increase in program expenditures, net of revenue. Education expenditures were up \$100 million chiefly due to legislation providing more school aid to the K-12 school systems in Nebraska. Health and Social Services was up \$62 million because of increased aid for Medicaid and other aid

programs. Higher Education was up as the appropriation to the University of Nebraska was increased \$31 million. Transportation net expenses were up \$37 million due to normal inflationary operating costs and the recognition of \$12 million in expenses related to lawsuits.

Business-type Activities

The business-type activities increased the State's net assets by \$66 million for 2006, which was net of a \$28 million transfer to the governmental activities. Most of the \$291 million of business-type activities' program revenues was related to the business assessment fees in the Unemployment Compensation Fund and Lottery Fund revenues. The Unemployment Compensation Fund had operating income of \$53 million in 2006. This income, when combined with the \$10 million in investment income, produced \$63 million of revenue. Lottery revenues of \$113 million generated net revenue of \$30 million, which was offset by the \$28 million transfer to the Governmental Activities. The lottery transfer was used primarily for education and environmental studies.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows and outflows and the availability of spendable resources. In particular, the unreserved balance may provide some indication of the State's net resources available for spending at the end of the fiscal year. (Unreserved balances may be designated or undesignated. If they are designated, they are unreserved only as long as they are used for the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in designated funds.) At the end of 2006, the State's Governmental Funds reported combined ending fund balances of \$2,330 million. The total unreserved balances amounted to \$1,710 million.

General Fund

The General Fund is the chief operating fund of the State. The major General Fund liability is the estimated tax refunds payable of \$274 million. Such refunds payable are \$22 million less than the expected taxes owed the State. Other assets of the General Fund available to pay near-term liabilities exceed such liabilities by \$670 million.

On June 30, 2005, the General Fund had a positive fund balance of \$409 million. While both revenues and expenditures increased in 2006, revenues were greater than expenditures which resulted in an increase in fund balance of \$289 million in 2006, which was greater than the \$173 million increase that occurred in 2005. The operating increase in 2006, when coupled with \$6 million decrease of other financing sources, caused the General Fund balance to increase by \$283 million, ending with a fund balance of \$692 million.

Revenues in 2006 were more than anticipated and were up \$186 million over 2005 chiefly due to (1) continued increase in corporate income tax revenue because of increased corporate profits as a result of the improved economy and (2) increased individual income tax revenue resulting from the effect of more capital gains being reported and increased salaries being paid. Sales taxes from increased retail sales were offset somewhat by legislation that decreased the sales tax base, causing only a slight increase in

sales taxes collected. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending.

To compensate for any downturns in revenues, the State has maintained a budgetary basis Cash Reserve Fund. While this Cash Reserve Fund is commingled with General fund cash in the General Fund financial statements, it is separate and distinct in that, by State Statute, it can only be used (1) when the cash balance of the General Fund is insufficient to meet General Fund current obligations and (2) for legislatively mandated transfers to other funds. Any money transferred in accordance with item one above must be repaid as soon as there is sufficient cash in the General Fund cash account to do so. Such reserve was at \$87 million at the beginning of 2005. Due to the fact that 2005 revenues exceeded the forecast, a statutory requirement caused a \$109 million transfer from the General Fund cash account to the Cash Reserve Fund in July 2005. Cigarette and tobacco products tax revenues of \$8 million were placed into the Cash Reserve in 2005 and \$27 million was transferred to the General Fund cash account and other funds, leaving a Cash Reserve Fund balance at the end of 2005 of \$177 million. In July, 2005 the statutory transfer for excess receipts for FY 2006 was \$262 million. Offsetting this large transfer was a \$146 million payment made on August 1, 2005 from the Cash Reserve to settle a lawsuit against the State related to a low-level radioactive waste site. There were transfers out of the reserve of \$19 million, leaving a balance of \$274 million at the end of 2006. Again, because 2006 revenues exceeded the forecast, a \$260 million transfer was made from the General Fund into the Cash Reserve Fund in July, 2006. As a result, at the end of July, 2006, the Cash Reserve Fund had \$534 million.

Other Governmental Funds

Other governmental fund balances totaled \$1,638 million at June 30, 2006; \$619 million of such fund balances is reserved to indicate that they are not available for new spending because such funds (1) are represented by endowment principal (\$386 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$214 million), (3) have been expended for other assets, chiefly inventories (\$8 million) and thus the funds are not available, or (4) have been committed for debt service (\$11 million).

Of the non-General Fund unreserved fund balances of \$1,018 million, \$54 million represents permanent school funds which can be used only for support of public schools. \$893 million is represented by special revenue funds which while unreserved, normally must be spent within the confines of such special revenue funds (a majority of these same funds are considered “restricted” on the government-wide financial statements). Twenty-four million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. Forty-seven million dollars is in the Capital Projects Fund, which, while unreserved, must be spent on a capital projects.

The three major funds presented as special revenue funds are the Highway Fund, the Federal Fund and the Health and Social Services Fund, with total fund balances of \$549 million. Of this balance, \$538 million is classified as unreserved, but which are restricted in the government-wide statements in that the funds are unreserved only within the confines of such funds.

Governmental funds other than the General Fund saw an increase in fund balances of \$39 million. The fund balances of the following funds increased: the Health and Social Service Fund (\$41 million), the Permanent School Fund (\$29 million) and other Nonmajor Funds (\$15 million). The following funds decreased: the Highway Fund (\$41 million) and the Federal Fund (\$5 million).

The Highway Fund had a \$54 million decrease in federal funds. This lower funding, along with \$10 million less in investment income, charges for services and other income forced an \$8 million decrease in

operating expenses. These were the major reasons the Highway Fund had a \$41 million decrease in fund balance in 2006 as opposed to a \$12 million increase in 2005.

The Federal Fund received \$76 million more in federal grants and contracts, a 4% increase from 2005. Such increased revenues allowed for increased expenditures in accordance with the terms of the grants and contracts of \$77 million. Due to this and lower other income, net of transfers, of \$5 million, at the end of 2006 there was a net decrease in the fund of \$5 million, a \$6 million swing from the \$1 million increase in the fund in 2005.

The Health and Social Services Fund consists of the Intergovernmental Trust Fund and the Tobacco Settlement Trust Fund, in addition to various cash funds. Such cash funds receive transfers from such trust funds, income from charges for services, and some tax revenue, among other income. All funds had an increase in investment income in 2006 of \$8 million (mostly due to the increase in interest rates) and \$4 million more in charges for services, which partially offset the \$16 million reduction in IGT receipts and a \$3 million decrease in tobacco settlement funds. The lower than expected receipts caused a \$7 million decrease in expenditures chiefly due to \$6 million less spent on protection and safety of children, which, when added to a increase in other revenue of \$1 million, resulted in a \$2 million larger increase in net revenues when compared to 2005. In the year 2005 the fund balance was increased \$38 million, whereas in 2006 the fund balance was increased by \$41 million.

The Permanent School Funds had an \$8 million impairment of revenue, chiefly due to a \$5 million reduction of investment income, and when combined with a small \$3 million increase in expenditures, caused the fund balance to increase only \$29 million in 2006 in comparison with a \$40 million increase in 2005.

The Nonmajor Funds revenues were mostly stable from 2005 to 2006, with only a slight decrease. Expenditures, however, increased \$36 million during 2006, mainly due to increases in regulation (\$15 million), public safety (\$6 million), economic development (\$5 million) and general government (\$8 million). In 2005 the Fund balance increased \$24 million; in 2006 it increased only \$15 million. The smaller increase was chiefly due to the fact that the increase in net transfers and financing proceeds of \$28 million (chiefly \$15 million from the General Fund for economic development and \$5 million for capital construction) was not enough to offset the increase in expenditures and slight decrease in revenues.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements under Business-type Activities, but in more detail. The State's one major proprietary fund, the Unemployment Compensation Fund, had reported net assets of \$273 million at the end of 2006. This fund's net assets increased \$62 million in 2006, mainly due to charges to customers which exceeded the unemployment claims paid out by \$53 million, in an effort to rebuild the cash reserves of the fund. Other proprietary or enterprise funds – the Lottery Fund, the Excess Liability Fund (this fund was established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (this operation utilizes incarcerated persons to manufacture and sell items) had combined income of \$31 million prior to a \$28 million transfer from the Lottery to governmental funds. Such transfer was used primarily for education and environmental studies.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Funds net assets increased \$719 million to \$7,782 million in 2006 due primarily to a strong market in 2006, which

provided \$551 million in appreciation of investments. Investment income in 2006 was \$141 million versus \$117 million in 2005. Contributions to the plans exceeded benefits, refunds and related administrative expenses by \$36 million. In another trust fund, \$393 million was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds. Total net assets in the College Savings Plan now total \$1,251 million.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

In 2006, the State continued to reap the benefits of the improved national economy. Forecasted revenues, upon which the State's budgeted General Fund expenses were based, had anticipated a steady, measured growth after the healthy increase in 2005. However, the State exceeded the revised projected tax revenues of \$3,178 million by \$74 million, realizing actual tax revenues, net of refunds, of \$3,252 million. Because the revenues continued to exceed expectations, the State's Forecasting Board made two new forecasts throughout the year, each time increasing the expected revenues. The total forecasted net revenues increased \$186 million from the original revenue forecast of \$2,992 million. As the year unfolded, revenues continued to pick up and the end result was that actual revenues again exceeded the annual forecast. Additionally, agencies continued to watch their spending and General Fund spending ended up \$151 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, allowed the State to finish 2006 with \$411 million of General Fund revenues in excess of expenditures on a budgetary basis, prior to net transfers out.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the State had invested \$7.3 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation expense for 2006 totaled \$47 million, compared to \$58 million for 2005.

CAPITAL ASSETS AS OF JUNE 30 (net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 508	\$ 494	\$ -	\$ -	\$ 508	\$ 494
Buildings and Equipment	348	334	6	7	354	341
Infrastructure	6,395	6,262	-	-	6,395	6,262
Subtotal	7,251	7,090	6	7	7,257	7,097
Construction in Progress	59	66	-	-	59	66
Total	\$ 7,310	\$ 7,156	\$ 6	\$ 7	\$ 7,316	\$ 7,163

GASB Statement No. 34 requires the State to select one of two methods to account for its infrastructure assets. One process is to record depreciation expense on selected infrastructure assets. The State has adopted an alternative process, referred to as the modified approach. Under this alternative method, the

State expenses certain maintenance and preservation costs and does not record any depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of roads that the State is responsible to maintain.

The State has consistently maintained a high level of the assessed condition of roads over the past five years. The State's goal is to maintain at least an overall system rating of 72 percent or above. The most recent condition assessment, completed for calendar year 2005, indicated an overall system rating of 84%, the same rating from the prior year.

For 2006, it was estimated that the State needed to spend \$125 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$214 million on roads in 2006, compared to \$221 million in 2005. For 2007, it is estimated that the State needs to spend \$148 million, a considerable reduction from the past three years. However, past history (page 72) indicates the State typically spends more than estimated.

During 2006, the State added \$65 million of new depreciable capital assets. The State spent \$147 million on infrastructure and land purchases in 2006 (\$128 million in 2005), most notably reconstructing (a) Highways 6 and 133 in Omaha, (b) Highway 81 north of Norfolk, (c) Interstate 680 in west Omaha, (d) Highway 30 around Blair, and (e) Highway 71 around Scottsbluff. Major land purchases included areas west and south of Omaha, in southwest Lincoln and around Hooper. Twenty million of governmental funds were spent on capital projects in 2006 compared to twenty-two million in 2005. Major spending on capital projects included debt service payments for certain educational facilities and the Capitol renovation project.

At June 30, 2006, the State had contractual commitments of \$467 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the financial statements.)

The State's General Fund capital outlay budget authorized spending \$32 million on capital projects in 2007, in addition to \$5 million of unspent capital outlay authorizations that existed on June 30, 2006.

Long-Term Debt

Long-term debt related to capital assets is minimal for reasons previously stated. For further detail and analysis of long-term debt, see Notes 8 and 9 to the financial statements.

CERTAIN LONG-TERM DEBT AS OF JUNE 30 (in millions of dollars)

	GOVERNMENTAL ACTIVITIES	
	2006	2005
<u>Bonds Payable:</u>		
Nebraska State Building Corporation	\$ 2	\$ 2
NETC Leasing Corp	17	21
	<u>19</u>	<u>23</u>
 <u>Capitalized Leases:</u>		
	<u>\$ 23</u>	<u>\$ 25</u>

There were no new bonds issued in 2006 or 2005. There were only three small capitalized leases added in 2006 (three leases were also added in 2005), and such additional debt was more than offset by debt repayments. Bonds and Certificates of Participation for leases issued on behalf of the State maintain an AA rating from Standard and Poors and an Aa3 rating from Moody's. Standard and Poor's has issued an AA+ rating for the State as a whole.

FACTORS THAT WILL AFFECT THE FUTURE

Nebraska's economy has continued with steady growth, with no large upswings anticipated. How the State reacts to increased pressure to continue the recent annual increases in Medicaid spending is critical to the future cash position of the State. In 2007, Medicaid aid is projected to increase \$51 million. This increase, when added to the appropriated increase in aid to education and public assistance, totals almost two-thirds of the projected increase in General Fund aid of \$153 million for 2007. Net General Fund revenues for 2007 are currently projected to about equal 2006 revenues, as some recent tax legislation has reduced the expected tax revenues which will offset normal inflationary increases in tax revenues. As a result, the current 2007 budget plans for only a \$110 million increase in the General Fund balance, which will be considerably less than the \$283 million increase in 2006.

One of the reasons aid to education is forecasted to increase is the result of legislation that provides General Fund support for the maintenance, repair and renovation of buildings and facility replacement construction on the campuses of the University and state colleges. The State will spend \$6.625 million annually from July 1, 2006 through June 30, 2009 and then \$12.125 million annually from July 1, 2009 through June 30, 2020, for a total of \$153.25 million. Both the University and the state colleges have secured debt financing for such repairs, renovation and construction and these State funds will be used for debt service on the bonds which will be paid off in 2020.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2006, this Fund had a \$274 million balance. Two hundred sixty million was transferred from the General Fund in July 2006 to the Cash Reserve Fund as statutorily required, resulting in a balance of \$534 million at July 31, 2006. Future statutory disbursements from this fund include \$15 million to be transferred to the General Fund and \$2 million transferred to a veteran's home in 2007 plus \$60 million and \$55 million to be transferred to the General fund in 2008 and 2009, respectively.

CONTACTING THE STATE ACCOUNTING OFFICE

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional information, contact the State Accounting Division of the Department of Administrative Services, Suite 1309 State Capitol, Lincoln, NE 68509-4664, (402) 471-2581.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component units. For the University of Nebraska, contact the University of Nebraska, Director of University Accounting, 209 Varner Hall, 3835 Holdrege, Lincoln, NE 68583, (402) 472-2191. For the State College System, contact the Nebraska State College System, Fiscal and Facilities Management, 11th Floor State Capitol, Lincoln, NE 68509-4605, (402) 471-2505.



BASIC FINANCIAL STATEMENTS





State of Nebraska
STATEMENT OF NET ASSETS
June 30, 2006

(Dollars in Thousands)

(Dollars in Thousands)	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Cash and Cash Equivalents	\$ 151,121	\$ 249,831	\$ 400,952	\$ 238,582
Receivables, net of allowance				
Taxes	337,708	-	337,708	-
Due from Federal Government	211,559	-	211,559	-
Other	111,035	44,002	155,037	212,909
Internal Balances	(207)	207	-	-
Due from Primary Government	-	-	-	388
Investments	2,236,228	76,484	2,312,712	1,471,816
Loans Receivable	213,896	-	213,896	37,873
Investment in Joint Venture	-	-	-	193,982
Other Assets	21,835	2,252	24,087	37,371
Restricted Assets:				
Cash and Cash Equivalents	20,529	-	20,529	247,305
Other	-	1,734	1,734	1,420
Securities Lending Collateral	544,697	10,931	555,628	-
Capital assets:				
Land	508,138	315	508,453	56,020
Infrastructure	6,394,382	-	6,394,382	-
Construction in Progress	59,079	-	59,079	107,346
Land Improvements	-	-	-	123,216
Buildings and Equipment	804,734	10,011	814,745	1,521,725
Less Accumulated Depreciation	(456,530)	(3,945)	(460,475)	(582,656)
Total Capital Assets, net of depreciation	7,309,803	6,381	7,316,184	1,225,651
Total Assets	\$ 11,158,204	\$ 391,822	\$ 11,550,026	\$ 3,667,297
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 293,811	\$ 10,799	\$ 304,610	\$ 119,131
Tax Refunds Payable	280,774	-	280,774	-
Due to Other Governments	16,973	-	16,973	-
Deposits	11,745	-	11,745	8,869
Due to Component Units	388	-	388	-
Unearned Revenue	36,749	6,542	43,291	77,479
Obligations under Securities Lending	544,697	10,931	555,628	-
Noncurrent Liabilities:				
Due within one year	246,086	24,012	270,098	54,588
Due in more than one year	209,915	28,791	238,706	426,062
Total Liabilities	\$ 1,641,138	\$ 81,075	\$ 1,722,213	\$ 686,129
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 7,269,102	\$ 6,066	\$ 7,275,168	\$ 808,501
Restricted for:				
Education	10,885	-	10,885	122,382
Health and Social Services	461,598	-	461,598	-
Transportation	108,459	-	108,459	-
Licensing and Regulation	88,787	-	88,787	-
Other Purposes	422,074	1,734	423,808	1,425,082
Unemployment Compensation Benefits	-	272,803	272,803	-
Debt Service and Construction	10,360	-	10,360	139,131
Permanent Trusts:				
Nonexpendable	386,703	-	386,703	-
Expendable	77,768	-	77,768	-
Unrestricted	681,330	30,144	711,474	486,072
Total Net Assets	\$ 9,517,066	\$ 310,747	\$ 9,827,813	\$ 2,981,168

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 308,567	\$ 73,624	\$ 31,859	\$ 39
Conservation of Natural Resources	100,476	24,332	51,461	520
Culture – Recreation	27,174	15,977	2,822	-
Economic Development and Assistance	87,299	3,195	60,636	-
Education	1,318,123	23,346	268,193	8
Higher Education - Colleges and University	482,229	-	-	-
Health and Social Services	2,593,692	120,526	1,410,489	-
Public Safety	288,659	26,183	63,702	3,894
Regulation of Business and Professions	151,853	113,418	1,852	-
Transportation	697,210	90,951	260,803	-
Interest on Long-term Debt	2,556	-	-	-
Total governmental activities	6,057,838	491,552	2,151,817	4,461
Business-type activities:				
Unemployment Compensation	101,433	154,413	-	-
Lottery	83,440	113,108	-	-
Excess Liability	12,551	12,903	-	-
Cornhusker State Industries	10,552	10,851	-	-
Total business-type activities	207,976	291,275	-	-
Total Primary Government	\$ 6,265,814	\$ 782,827	\$ 2,151,817	\$ 4,461
COMPONENT UNITS:				
University of Nebraska	\$ 1,447,859	\$ 589,975	\$ 341,655	\$ 1,956
State Colleges	77,344	25,097	9,675	1,087
Total Component Units	\$ 1,525,203	\$ 615,072	\$ 351,330	\$ 3,043

General revenues:
Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning as restated
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS**

PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (203,045)	\$ -	\$ (203,045)	\$ -
(24,163)	-	(24,163)	-
(8,375)	-	(8,375)	-
(23,468)	-	(23,468)	-
(1,026,576)	-	(1,026,576)	-
(482,229)	-	(482,229)	-
(1,062,677)	-	(1,062,677)	-
(194,880)	-	(194,880)	-
(36,583)	-	(36,583)	-
(345,456)	-	(345,456)	-
(2,556)	-	(2,556)	-
<u>(3,410,008)</u>	<u>-</u>	<u>(3,410,008)</u>	<u>-</u>
-	52,980	52,980	-
-	29,668	29,668	-
-	352	352	-
-	299	299	-
<u>-</u>	<u>83,299</u>	<u>83,299</u>	<u>-</u>
<u>(3,410,008)</u>	<u>83,299</u>	<u>(3,326,709)</u>	<u>-</u>
-	-	-	(514,273)
-	-	-	(41,485)
-	-	-	(555,758)
1,803,670	-	1,803,670	-
1,410,980	-	1,410,980	-
312,809	-	312,809	-
134,406	-	134,406	-
79,723	-	79,723	-
35,369	-	35,369	-
92,892	10,110	103,002	84,681
39	(423)	(384)	259,292
-	-	-	482,229
15,582	-	15,582	-
27,602	(27,602)	-	-
<u>3,913,072</u>	<u>(17,915)</u>	<u>3,895,157</u>	<u>826,202</u>
503,064	65,384	568,448	270,444
9,014,002	245,363	9,259,365	2,710,724
<u>\$ 9,517,066</u>	<u>\$ 310,747</u>	<u>\$ 9,827,813</u>	<u>\$ 2,981,168</u>

State of Nebraska
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	\$ 28,418	\$ 3,148	\$ 3,572	\$ 61	\$ 6,758	\$ 37,104	\$ 79,061
Cash on Deposit with Fiscal Agents	-	-	-	-	-	20,529	20,529
Investments	798,472	93,184	60,390	439,687	422,851	421,644	2,236,228
Securities Lending Collateral	262,575	30,643	20,716	60,712	43,316	126,735	544,697
Receivables, net of allowance							
Taxes	295,987	41,527	-	-	-	194	337,708
Due from Federal Government	-	30,751	180,075	-	-	733	211,559
Loans	-	-	3,042	698	-	210,156	213,896
Other	22,868	9,120	21,807	35,437	4,015	15,610	108,857
Due from Other Funds	72,986	780	1,108	2,936	-	2,915	80,725
Inventories	439	7,410	6,072	409	-	-	14,330
Prepaid Items	43	13	5	-	-	141	202
Other	5,220	-	-	-	-	838	6,058
TOTAL ASSETS	\$ 1,487,008	\$ 216,576	\$ 296,787	\$ 539,940	\$ 476,940	\$ 836,599	\$ 3,853,850
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 74,264	\$ 55,790	\$ 65,010	\$ 11,475	\$ 7,852	\$ 29,691	\$ 244,082
Tax Refunds Payable	273,685	7,089	-	-	-	-	280,774
Due to Other Governments	674	15,546	-	-	-	\$ 753	16,973
Deposits	5,250	1,002	3,302	264	106	1,821	11,745
Due to Other Funds	63,813	6,542	72,240	14,595	18	10,379	167,587
Due to Component Units	388	-	-	-	-	-	388
Obligations under Securities Lending	262,575	30,643	20,716	60,712	43,316	126,735	544,697
Claims Payable	98,671	-	93,006	-	-	-	191,677
Deferred Revenue	15,449	-	27,304	18,651	4,590	-	65,994
TOTAL LIABILITIES	794,769	116,612	281,578	105,697	55,882	169,379	1,523,917
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	-	-	3,042	698	-	210,156	213,896
Inventories and Prepaid Items	482	7,423	5	409	-	141	8,460
Debt Service	-	-	-	-	-	10,742	10,742
Endowment Principal	-	-	-	-	367,156	19,547	386,703
Unreserved, reported in:							
General Fund	691,757	-	-	-	-	-	691,757
Special Revenue Funds	-	92,541	12,162	433,136	-	355,697	893,536
Permanent Funds	-	-	-	-	53,902	23,866	77,768
Capital Projects Fund	-	-	-	-	-	47,071	47,071
TOTAL FUND BALANCES	692,239	99,964	15,209	434,243	421,058	667,220	2,329,933
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,487,008	\$ 216,576	\$ 296,787	\$ 539,940	\$ 476,940	\$ 836,599	\$ 3,853,850

The accompanying notes are an integral part of the financial statements.

State of Nebraska

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2006

(Dollars in Thousands)

Total fund balances for governmental funds \$ 2,329,933

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	508,138	
Infrastructure	6,394,382	
Construction in progress	59,079	
Other capital assets	749,647	
Accumulated depreciation	<u>(420,577)</u>	7,290,669

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 30,472

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 57,980

Certain long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(19,435)	
Accrued interest on bonds	(382)	
Capital leases	(17,968)	
Obligations under other financing arrangements	(16,185)	
Compensated absences	(108,724)	
Claims and judgments	<u>(29,294)</u>	<u>(191,988)</u>

Net assets of governmental activities \$ 9,517,066

The accompanying notes are an integral part of the financial statements.

State of Nebraska

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	\$ 1,798,515	\$ -	\$ -	\$ 3,646	\$ -	\$ -	\$ 1,802,161
Sales and Use Taxes	1,273,812	134,332	-	-	-	3,008	1,411,152
Petroleum Taxes	315	295,529	-	-	3,010	13,955	312,809
Excise Taxes	75,273	-	-	7,727	-	49,348	132,348
Business and Franchise Taxes	62,577	-	-	-	-	17,146	79,723
Other Taxes	26,603	3,093	-	-	-	5,673	35,369
Federal Grants and Contracts	34	243,454	1,873,380	1,087	-	38,323	2,156,278
Licenses, Fees and Permits	19,495	74,386	2	4,185	1,279	97,619	196,966
Charges for Services	132	13,766	9,426	33,637	-	25,171	82,132
Investment Income	13,294	1,225	320	35,709	24,957	14,383	89,888
Rents and Royalties	-	327	24	410	22,399	22,791	45,951
Surcharge	-	-	-	-	-	54,217	54,217
Other	2,080	2,755	2,937	70,597	14,118	25,841	118,328
TOTAL REVENUES	3,272,130	768,867	1,886,089	156,998	65,763	367,475	6,517,322
EXPENDITURES:							
Current:							
General Government	233,264	-	2,872	-	-	60,073	296,209
Conservation of Natural Resources	26,427	-	29,731	-	-	47,960	104,118
Culture – Recreation	5,576	-	2,348	-	-	18,468	26,392
Economic Development and Assistance	5,162	-	63,963	-	-	18,337	87,462
Education	999,375	-	275,262	-	36,548	7,600	1,318,785
Higher Education - Colleges and University	468,961	-	-	-	-	13,268	482,229
Health and Social Services	1,050,995	-	1,437,782	114,854	-	1,771	2,605,402
Public Safety	189,659	-	64,830	-	-	33,246	287,735
Regulation of Business and Professions	3,979	-	742	-	-	147,129	151,850
Transportation	17	817,543	-	-	-	20,236	837,796
Capital Projects	-	-	-	-	-	25,101	25,101
Debt Service:							
Principal	-	-	-	-	-	4,660	4,660
Interest	-	-	-	-	-	1,742	1,742
TOTAL EXPENDITURES	2,983,415	817,543	1,877,530	114,854	36,548	399,591	6,229,481
Excess of Revenues Over (Under) Expenditures	288,715	(48,676)	8,559	42,144	29,215	(32,116)	287,841
OTHER FINANCING SOURCES (USES):							
Transfers In	44,285	14,670	88	3,487	-	109,451	171,981
Transfers Out	(51,275)	(7,091)	(13,757)	(4,671)	-	(67,585)	(144,379)
Proceeds from Other Financing Arrangements	-	-	-	-	-	5,420	5,420
Proceeds from Capital Leases	1,211	-	-	-	-	-	1,211
TOTAL OTHER FINANCING SOURCES (USES)	(5,779)	7,579	(13,669)	(1,184)	-	47,286	34,233
Net Change in Fund Balances	282,936	(41,097)	(5,110)	40,960	29,215	15,170	322,074
FUND BALANCES, JULY 1	409,303	141,061	20,319	393,283	391,843	652,050	2,007,859
FUND BALANCES, JUNE 30	\$ 692,239	\$ 99,964	\$ 15,209	\$ 434,243	\$ 421,058	\$ 667,220	\$ 2,329,933

The accompanying notes are an integral part of the financial statements.

State of Nebraska

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

(Dollars in Thousands)

Net change in fund balances—total governmental funds **\$ 322,074**

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. Sales of capital assets are reported as revenues. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay, net of gains or losses	192,854	
Depreciation expense	<u>(39,494)</u>	153,360

Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

Other financing arrangements	<u>(5,420)</u>	(5,420)
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Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (1,211)

Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:

Bond principal retirement	3,995	
Other financing arrangement payments	665	
Capital lease payments	<u>3,724</u>	8,384

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 9,271

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Unearned revenues increased by this amount this year. 2,076

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	70	
Increase in compensated absences	(2,397)	
Decrease in claims and judgments	797	
Decrease in pension benefit obligation	<u>16,060</u>	<u>14,530</u>

Change in net assets of governmental activities **\$ 503,064**

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 217,524	\$ 32,307	\$ 249,831	\$ 72,732
Receivables, net of allowance	38,796	5,206	44,002	2,059
Due from Other Funds	-	374	374	59,703
Inventories	-	1,899	1,899	206
Prepaid Items	-	353	353	1,039
TOTAL CURRENT ASSETS	<u>256,320</u>	<u>40,139</u>	<u>296,459</u>	<u>135,739</u>
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,734	1,734	-
Long-Term Investments	29,670	46,814	76,484	-
Securities Lending Collateral	9,756	1,175	10,931	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	428	9,583	10,011	55,087
Less Accumulated Depreciation	(176)	(3,769)	(3,945)	(35,953)
Total Capital Assets, net	<u>252</u>	<u>6,129</u>	<u>6,381</u>	<u>19,134</u>
TOTAL NONCURRENT ASSETS	<u>39,678</u>	<u>55,852</u>	<u>95,530</u>	<u>19,134</u>
TOTAL ASSETS	<u>\$ 295,998</u>	<u>\$ 95,991</u>	<u>\$ 391,989</u>	<u>\$ 154,873</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 2,466	\$ 8,333	\$ 10,799	\$ 16,550
Due to Other Funds	-	167	167	6,398
Capital Lease Obligations	-	-	-	2,435
Claims, Judgments and Compensated Absences	10,708	13,304	24,012	25,766
Unearned Revenue	-	6,542	6,542	1,227
TOTAL CURRENT LIABILITIES	<u>13,174</u>	<u>28,346</u>	<u>41,520</u>	<u>52,376</u>
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	2,561
Claims, Judgments and Compensated Absences	13	28,778	28,791	41,956
Obligations under Securities Lending	9,756	1,175	10,931	-
TOTAL NONCURRENT LIABILITIES	<u>9,769</u>	<u>29,953</u>	<u>39,722</u>	<u>44,517</u>
TOTAL LIABILITIES	<u>22,943</u>	<u>58,299</u>	<u>81,242</u>	<u>96,893</u>
NET ASSETS:				
Invested in Capital Assets, net of related debt	252	5,814	6,066	14,138
Restricted for:				
Lottery Prizes, Noncurrent	-	1,734	1,734	-
Unemployment Compensation Benefits	272,803	-	272,803	-
Unrestricted	-	30,144	30,144	43,842
TOTAL NET ASSETS	<u>273,055</u>	<u>37,692</u>	<u>310,747</u>	<u>57,980</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 295,998</u>	<u>\$ 95,991</u>	<u>\$ 391,989</u>	<u>\$ 154,873</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES:				
Charges for Services	\$ 154,413	\$ 136,860	\$ 291,273	\$ 300,285
Other	-	2	2	2,316
TOTAL OPERATING REVENUES	154,413	136,862	291,275	302,601
OPERATING EXPENSES:				
Personal Services	58	4,986	5,044	32,431
Services and Supplies	127	24,963	25,090	94,301
Lottery Prizes	-	63,722	63,722	-
Unemployment Claims	101,129	-	101,129	-
Insurance Claims	-	12,052	12,052	165,558
Depreciation	119	820	939	5,207
TOTAL OPERATING EXPENSES	101,433	106,543	207,976	297,497
Operating Income (Loss)	52,980	30,319	83,299	5,104
NONOPERATING REVENUES (EXPENSES):				
Investment Income	8,644	1,466	10,110	3,004
Gain (Loss) on Sale of Capital Assets	-	(423)	(423)	(788)
Other	-	-	-	1,951
TOTAL NONOPERATING REVENUES (EXPENSES)	8,644	1,043	9,687	4,167
Income (Loss) Before Transfers	61,624	31,362	92,986	9,271
Transfers In	-	-	-	1,100
Transfers Out	-	(27,602)	(27,602)	(1,100)
Change in Net Assets	61,624	3,760	65,384	9,271
NET ASSETS, JULY 1	211,431	33,932	245,363	48,709
NET ASSETS, JUNE 30	<u>\$ 273,055</u>	<u>\$ 37,692</u>	<u>\$ 310,747</u>	<u>\$ 57,980</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 148,758	\$ 127,311	\$ 276,069	\$ 12,148
Cash Received from Interfund Charges	-	9,561	9,561	290,842
Cash Paid to Employees	(58)	(4,862)	(4,920)	(32,007)
Cash Paid to Suppliers	(127)	(23,669)	(23,796)	(85,018)
Cash Paid for Lottery Prizes	-	(62,871)	(62,871)	-
Cash Paid for Insurance Claims	(104,060)	(10,552)	(114,612)	(166,208)
Cash Paid for Interfund Services	(6)	(962)	(968)	(8,310)
NET CASH FLOWS FROM OPERATING ACTIVITIES	44,507	33,956	78,463	11,447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cigarette Tax Proceeds	-	-	-	2,058
Transfers In	-	-	-	1,100
Transfers Out	-	(27,602)	(27,602)	(1,100)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	(27,602)	(27,602)	2,058
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	(254)	(939)	(1,193)	(6,925)
Proceeds from Sale of Capital Assets	-	-	-	2,930
Principal Paid on Capital Leases	-	-	-	(2,178)
Interest Paid on Capital Leases	-	-	-	(107)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(254)	(939)	(1,193)	(6,280)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	(962)	(170,140)	(171,102)	-
Proceeds from Sale of Investment Securities	-	170,477	170,477	-
Interest and Dividend Income	8,300	3,412	11,712	2,813
NET CASH FLOWS FROM INVESTING ACTIVITIES	7,338	3,749	11,087	2,813
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	51,591	9,164	60,755	10,038
CASH AND CASH EQUIVALENTS, JULY 1	165,933	23,143	189,076	62,694
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 217,524	\$ 32,307	\$ 249,831	\$ 72,732

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2006

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 52,980	\$ 30,319	\$ 83,299	\$ 5,104
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	119	820	939	5,207
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(5,655)	(2)	(5,657)	939
(Increase) Decrease in Due from Other Funds	-	(358)	(358)	(5,621)
(Increase) Decrease in Inventories	-	296	296	79
(Increase) Decrease in Prepaid Items	-	53	53	45
(Increase) Decrease in Long-Term Deposits	-	10	10	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(6)	820	814	750
Increase (Decrease) in Due to Other Funds	-	128	128	5,087
Increase (Decrease) in Claims Payable	(2,931)	1,500	(1,431)	(650)
Increase (Decrease) in Unearned Revenue	-	370	370	507
Total Adjustments	(8,473)	3,637	(4,836)	6,343
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 44,507	\$ 33,956	\$ 78,463	\$ 11,447

NONCASH TRANSACTIONS (dollars in thousands):

Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.

The following noncash transactions occurred during the year:

Capital Assets acquired through Capital Leases	\$ -	\$ -	\$ -	\$ 2,729
Change in Fair Value of Investments	-	(2,064)	(2,064)	-
Total Noncash Transactions	<u><u>\$ -</u></u>	<u><u>\$ (2,064)</u></u>	<u><u>\$ (2,064)</u></u>	<u><u>\$ 2,729</u></u>

State of Nebraska
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS:			
Cash and Cash Equivalents	\$ 4,040	\$ 17,564	\$ 87,678
Investments:			
U.S. Treasury Securities	92,644	-	-
Government Agency Securities	472,446	-	-
Corporate Bonds	247,521	-	-
Equity Securities	862,551	-	-
Options	(716)	-	-
Municipal Bonds	18,691	-	-
Real Estate Investment Trust	57,166	-	-
Pooled Investment Contracts	122,701	-	-
Collateral Mortgage Obligations	136,824	-	-
Asset Backed Securities	117,299	-	-
Repurchase Agreements	3,247	-	-
Mutual Funds	798,243	1,251,991	-
Pooled Funds	4,449,431	-	-
Commercial Paper, Money Market, and Foreign Currency	442,390	-	-
Total Investments	7,820,438	1,251,991	-
Securities Lending Collateral	202,926	-	-
Receivables:			
Contributions	17,538	-	-
Interest and Dividends	11,630	1,437	551
Other	36,053	2	559
Total Receivables	65,221	1,439	1,110
Due from Other Funds	33,469	-	-
Capital Assets:			
Buildings and Equipment	16,435	-	-
Less Accumulated Depreciation	(8,692)	-	-
Total Capital Assets, net	7,743	-	-
Other Assets	-	12,270	-
TOTAL ASSETS	\$ 8,133,837	\$ 1,283,264	\$ 88,788
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 139,524	\$ 2,260	17,326
Due to Other Governments	-	-	44,088
Deposits	-	855	-
Due to Other Funds	106	13	-
Obligations under Securities Lending	202,926	-	-
Capital Lease Obligations	9,176	-	-
Accrued Compensated Absences	255	-	-
Other Liabilities	-	-	27,374
TOTAL LIABILITIES	351,987	3,128	88,788
NET ASSETS:			
Held in Trust for:			
Pension Benefits	7,781,850	-	-
Other Purposes	-	1,280,136	-
TOTAL NET ASSETS	7,781,850	1,280,136	-
TOTAL LIABILITIES AND NET ASSETS	\$ 8,133,837	\$ 1,283,264	\$ 88,788

The accompanying notes are an integral part of the financial statements.

State of Nebraska

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	\$ 149,643	\$ 392,844
Client Contributions	-	178
State Contributions	85,876	-
Political Subdivision Contributions	102,086	-
Court Fees	3,071	-
Total Contributions	<u>340,676</u>	<u>393,022</u>
Investment Income:		
Net Appreciation (Depreciation) in		
Fair Value of Investments	551,034	48,782
Interest and Dividend Income	141,004	31,862
Securities Lending Income	10,143	-
Total Investment Income	<u>702,181</u>	<u>80,644</u>
Investment Expenses	9,718	7,798
Securities Lending Expenses	9,699	-
Total Investment Expense	<u>19,417</u>	<u>7,798</u>
Net Investment Income	<u>682,764</u>	<u>72,846</u>
Escheat Revenue	-	9,270
Other Additions	115	4,814
TOTAL ADDITIONS	<u>1,023,555</u>	<u>479,952</u>
DEDUCTIONS:		
Benefits	285,700	163,195
Refunds	11,797	-
Amounts Distributed to Outside Parties	-	17,716
Administrative Expenses	7,504	2,301
TOTAL DEDUCTIONS	<u>305,001</u>	<u>183,212</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	718,554	-
Other Purposes	-	296,740
NET ASSETS-BEGINNING OF YEAR	<u>7,063,296</u>	<u>983,396</u>
NET ASSETS-END OF YEAR	<u>\$ 7,781,850</u>	<u>\$ 1,280,136</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	\$ 223,195	\$ 15,387	\$ 238,582
Receivables, net of allowance			
Loans	35,109	2,764	37,873
Other	210,594	2,315	212,909
Due from Primary Government	-	388	388
Investments	1,442,072	29,744	1,471,816
Investment in Joint Venture	193,982	-	193,982
Other Assets	33,915	3,456	37,371
Restricted Assets:			
Cash and Cash Equivalents	235,122	12,183	247,305
Investments Held by Trustee	-	1,420	1,420
Capital assets:			
Land	55,340	680	56,020
Land Improvements	106,982	16,234	123,216
Construction in Progress	98,787	8,559	107,346
Buildings and Equipment	1,392,543	129,182	1,521,725
Less Accumulated Depreciation	(525,183)	(57,473)	(582,656)
Total Capital Assets, net of depreciation	<u>1,128,469</u>	<u>97,182</u>	<u>1,225,651</u>
Total Assets	<u>\$ 3,502,458</u>	<u>\$ 164,839</u>	<u>\$ 3,667,297</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 112,710	\$ 6,421	\$ 119,131
Deposits	8,426	443	8,869
Deferred Revenue	77,152	327	77,479
Noncurrent Liabilities:			
Due within one year	49,673	4,915	54,588
Due in more than one year	398,809	27,253	426,062
Total Liabilities	<u>\$ 646,770</u>	<u>\$ 39,359</u>	<u>\$ 686,129</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 741,018	\$ 67,483	\$ 808,501
Restricted for:			
Education	122,382	-	122,382
Other Purposes	1,391,945	33,137	1,425,082
Construction and Debt Service	128,763	10,368	139,131
Unrestricted	471,580	14,492	486,072
Total Net Assets	<u>\$ 2,855,688</u>	<u>\$ 125,480</u>	<u>\$ 2,981,168</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2006

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	\$ 852,178	\$ 48,707	\$ 900,885
Supplies and materials	218,705	4,339	223,044
Contractual services	86,040	2,504	88,544
Repairs and maintenance	40,492	1,659	42,151
Utilities	32,096	3,649	35,745
Communications	13,844	903	14,747
Depreciation	60,374	3,742	64,116
Scholarships and fellowships	120,834	721	121,555
Other	23,296	11,120	34,416
Total Operating Expenses	<u>1,447,859</u>	<u>77,344</u>	<u>1,525,203</u>
Program Revenues:			
Charges for Services	589,975	25,097	615,072
Operating Grants and Contributions	341,655	9,675	351,330
Capital Grants and Contributions	1,956	1,087	3,043
Total Program Revenues	<u>933,586</u>	<u>35,859</u>	<u>969,445</u>
Net (Expense) Revenue	<u>(514,273)</u>	<u>(41,485)</u>	<u>(555,758)</u>
General Revenue:			
Interest and investment earnings	82,520	2,161	84,681
Payments from the State of Nebraska	439,203	43,026	482,229
Miscellaneous	255,299	3,993	259,292
Total General Revenues	<u>777,022</u>	<u>49,180</u>	<u>826,202</u>
Change in Net Assets	262,749	7,695	270,444
Net Assets - Beginning as restated	<u>2,592,939</u>	<u>117,785</u>	<u>2,710,724</u>
Net Assets - Ending	<u>\$ 2,855,688</u>	<u>\$ 125,480</u>	<u>\$ 2,981,168</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

(dollars expressed in thousands)

1. Summary of Significant Accounting Policies

A. Basis of Presentation. The accompanying financial statements of the State of Nebraska (the "State") and its component units have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services. Additional data has been derived from audited financial statements of certain entities and from reports prescribed by the State Accounting Administrator and prepared by various State agencies and departments based on independent or subsidiary accounting systems maintained by them.

B. Reporting Entity. In determining its financial reporting entity, the State has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the State, or the significance of their relationship with the State are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

As required by GAAP, these financial statements present the State and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. Complete financial statements of the individual component units that issue separate financial statements, as noted below, can be obtained from their respective administrative offices.

Blended Component Units. The following component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

NETC Leasing Corporation. The NETC Leasing Corporation is a nonprofit corporation formed by the State in 1999 to acquire property to be leased

to and purchased by the Nebraska Educational Telecommunications Commission (NETC), a State agency. The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC Leasing Corporation. Even though it is legally separate, the NETC Leasing Corporation is reported as if it were part of the State because it provides services entirely to the State.

Nebraska State Building Corporation. The Nebraska State Building Corporation (NSBC) is a nonprofit corporation formed by the State in 1987 to finance the acquisition of property to be used by the State. Even though it is legally separate, the NSBC is reported as if it were part of the State because it provides services entirely to the State.

Discretely Presented Component Units. The following component units are entities that are legally separate from the State, but are financially accountable to the State, or their relationships with the State are such that their exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State and governed by separate boards.

Nebraska State College System. The Board of Trustees of the Nebraska State Colleges governs Chadron State College, Peru State College and Wayne State College. The Board of Trustees is also the Board of Directors of the Nebraska State Colleges Facilities Corporation, a nonprofit corporation incorporated in 1983 to finance the repair or construction of buildings or the acquisition of equipment for use by the State Colleges. The Board of Trustees consists of the Commissioner of Education and six members appointed by the Governor. Chadron State, Peru State and Wayne State Foundations are tax-exempt nonprofit corporations whose purpose is to provide financial support for the Nebraska State College System. Audit reports have been issued under separate cover.

University of Nebraska. The University of Nebraska consists of the following campuses: University of Nebraska – Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney, and University of Nebraska Medical Center. The University of Nebraska is governed by an elected eight-member Board of Regents. The University's financial reporting entity also consists of the following units: the University of Nebraska Facilities Corporation, a nonprofit corporation

organized to finance the construction and repair of buildings and hold them in trust for the University of Nebraska; the University Medical Associates, organized for the purpose of billing medical service fees generated by university clinicians; UNeMed, organized to develop and market biomedical technologies for the university; the University Dental Associates, organized for the purpose of billing dental service fees generated by university dentists; the Nebraska Utility Corporation, formed to purchase, lease, construct and finance activities relating to energy requirements of the University of Nebraska-Lincoln; the Peter Kiewit Institute Technology Development Corporation, a nonprofit corporation formed for the purpose of teaching and developing information science technology through students and faculty by conducting applied research; and the University of Nebraska Foundation, a tax-exempt nonprofit corporation whose purpose is to provide financial support for the University of Nebraska. The University of Nebraska is included as a component unit because it is fiscally dependant on the State. Audit reports have been issued under separate cover.

The university and colleges are funded chiefly through State appropriations, tuition, federal grants, private donations and grants, and auxiliary operations.

Related Organizations. The State's officials are responsible for appointing members of boards of other organizations, but the State's accountability for these organizations does not extend beyond making these appointments. The Governor appoints the boards of the following organizations: Nebraska Educational Finance Authority, Nebraska Investment Finance Authority, Research and Development Authority, and Wyuka Cemetery.

C. Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the State as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a

significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in Capital Assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted Net Assets. This category results when constraints are externally imposed on net asset use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

It is the policy of the State to spend restricted net assets only when unrestricted net assets are insufficient or unavailable.

The Statement of Net Assets reports \$1,841,171 of restricted net assets, of which \$1,075,851 is restricted by enabling legislation.

Unrestricted Net Assets. This category represents net assets that do not meet the definition of the preceding two categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Administrative overhead charges of internal service funds are included in direct expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment; and 3) investment earnings of permanent funds that are legally restricted for a specific program. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Basis of Accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available, i.e., earned and collected within the next 60 days, except for federal reimbursement grants which use a one year availability period. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment compensation taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 60 days (or 12 months in the case of federal reimbursement grants) are offset by deferred revenue.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The State reports the following major governmental funds:

General Fund. This is the State's primary operating fund. It reflects transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Highway Fund. This fund accounts for the maintenance and preservation of State highways financed with sales tax on motor vehicles, gas taxes, federal aid and other highway user fees.

Federal Fund. This fund accounts for substantially all federal monies received by the State, except those received by the Highway Fund.

Health and Social Services Fund. This fund accounts for activities of agencies, boards, and commissions providing health care and social services financed primarily by user fees and tobacco settlement proceeds.

Permanent School Fund. This fund receives proceeds from any sale of the school lands held in trust for public education; payments for easements and rights-of-way over these lands; royalties and severance taxes paid on oil, gas and minerals produced from this lands; escheats; unclaimed property and other items provided by law. Income is distributed to public schools.

The State reports the following major enterprise fund:

Unemployment Compensation Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Capital Projects Fund. Reflects transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities.

Permanent Funds. Reflects transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens, such as veterans, state airports and others.

Proprietary Fund Types:

Enterprise Funds. Reflect transactions used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

Internal Service Funds. These funds account for fleet management, facilities management, accounting, risk management, communication, information technology, printing, purchasing, and postal services provided to other funds on a cost reimbursement basis.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for State Employee Retirement System, County Employee Retirement System, School Retirement System, Judges Retirement System, State Patrol Retirement System and Deferred Compensation pension benefits.

Private Purpose Trust Funds. These funds account for property escheated to the State held for private individuals, Nebraska College Savings Plan activity held for private individuals, and assets held for clients and inmates.

Agency Funds. These funds account for assets held by the State pending distribution to other governments and individuals.

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

- E. Cash and Cash Equivalents.** In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2006, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the

State's Investment Council that maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

- F. Investments.** Investments as reported in the basic financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State and its component units are stated at fair value based on quoted market prices. The State Treasurer is the custodian of all funds for the State; however, investments are under the responsibility of the Nebraska Investment Council or other administrative bodies as determined by law.
- G. Receivables.** Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.
- H. Inventories.** Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Significant inventories of governmental funds are valued using weighted average cost. Proprietary Funds' valuation method is primarily at the lower of cost (first-in, first-out) or market. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).
- Food stamps and commodities on hand at fiscal year end are reflected as inventories, offset by a like amount of deferred revenue, in the Federal Fund. Food stamp inventory is reported at face value and commodities are reported at fair values established by the federal government at the date received.
- I. Restricted Assets.** Assets held by the trustees for the NETC Leasing Corporation, the Nebraska State Building Corporation, the State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.
- J. Capital Assets.** Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The State possesses certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These collections are not capitalized by the State because they are (1) held for public exhibition, education or research in furtherance of public service, rather than financial gain, (2) protected, kept unencumbered, cared for and preserved, and (3) subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These assets include works of art and historical treasures, such as statues; historical documents; paintings; rare library books; and miscellaneous capitol-related artifacts and furnishings.

Generally, equipment that has a cost in excess of \$5 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100 are capitalized. Building improvements and renovations in excess of \$100 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings and equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: commit to maintaining and preserving affected assets at or above a condition level established by the State; maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Roads are accounted for using the modified approach. Infrastructure acquired prior to June 30, 1980, is reported.

K. Compensated Employee Absences. All permanent employees earn sick and annual leave. Temporary and intermittent employees and Board and Commis-

sion members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

State employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 220 days (or 180 days for non-union employees). Sick leave is not vested except upon death or upon reaching the age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave. In addition, some State agencies permit employees to accumulate compensatory leave rather than paying overtime.

The government-wide, proprietary, and fiduciary fund financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

L. Reservations. Reservations of fund balance are established to identify the existence of assets that are not available for subsequent year appropriations (i.e., prepaid items and inventories) or have been legally segregated for specific purposes. Assets of legally restricted budgetary funds are an example of this type of reservation. Reservations of fund balance are also established for assets that are not current in nature, such as long-term loans receivable.

M. Interfund Transactions. Interfund services provided and used are accounted for as revenues, expenditures or expenses in the funds involved. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

The effect of interfund activity has been eliminated from the government-wide financial statements.

N. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents and Investments on the June 30, 2006, basic financial statements. All securities purchased or held must either be in the custody of the State or deposited with an agent in the State's name.

Deposits. At June 30, 2006, the carrying amounts of the State's deposits were \$109,563 and the bank balances were \$152,131. All bank balances were covered by federal depository insurance or by collateral held by the State's agent in the State's name.

State Statutes require that the aggregate amount of collateral securities deposited by a bank with the State Treasurer shall be at least one hundred two percent of the amount of public funds deposited in that bank, less the amount insured by the Federal Deposit Insurance Corporation. The State Treasurer had compensating balance agreements with various banks totaling \$41,417 at June 30, 2006.

Investments. State Statute Section 72-1239.01 authorizes the appointed members of the Nebraska Investment Council to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the State. Certain State entities are also allowed by statute to invest in real estate and other investments.

The investment amounts for some funds presented in the fiduciary fund financial statements reflected audited financial statements for the period ended December 31, 2005. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2006.

The primary government's investments at June 30, 2006, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

PRIMARY GOVERNMENT INVESTMENTS AT JUNE 30, 2006

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	\$ 609,384	3.43	\$ 79,973	5.18
U.S. Treasury Bills	35,120	0.10	7,510	0.23
U.S. Treasury Strips	-		5,161	15.44
Government Agency Securities	958,201	3.42	472,446	4.68
Corporate Bonds	521,605	3.67	247,521	4.04
Collateral Mortgage Obligations	25,248	4.49	136,824	4.31
Asset Backed Securities	5,549	1.74	117,299	1.37
Repurchase Agreements	-		3,247	2.67
Commercial Paper	202,416	0.43	88,608	1.64
Money Market Funds	69,408	1.37	345,008	4.76
Municipal Bonds	4,593	10.38	18,691	11.68
	<u>2,431,524</u>		<u>1,522,288</u>	
Other Investments				
Equity Securities	70,546		862,551	
Pooled Funds	326,998		4,449,431	
Mutual Funds	37,948		2,050,234	
Options	(116)		(716)	
Foreign Currency	182		8,774	
Real Estate Investment Trust	-		57,166	
Investment Contracts	1,900		122,701	
U.S. Treasury Investment Pool	215,450		-	
Less: Component Unit Investment in State Investment Pool	<u>(350,520)</u>		<u>-</u>	
Total Investments	2,733,912		9,072,429	
Securities Lending Short-term Collateral Investment Pool	<u>555,628</u>		<u>202,926</u>	
Total	<u>\$ 3,289,540</u>		<u>\$ 9,275,355</u>	

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The State has contracts with investment managers that limit the effective duration to within one year of the effective duration of the benchmark.

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will

not fulfill its obligations. The State has contracts with investment managers that set the minimum average quality ratings for an account at an A. The primary government's rated debt investments as of June 30, 2006, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES INVESTMENTS AT JUNE 30, 2006

	FAIR VALUE	QUALITY RATINGS							UNRATED
		AAA	AA	A	BBB	BB	B	A-1	
Govt Agency Securities	\$ 958,201	\$ 941,551	\$ -	\$ 308	\$ 1,016	\$ 2,497	\$ -	\$ -	\$ 12,829
Corporate Bonds	521,605	232,357	198,544	68,633	7,158	1,804	2,666	-	10,443
Collateral Mortgage Obligations	25,248	22,025	231	306	691	193	174	-	1,628
Asset Backed Securities	5,549	3,531	161	182	191	-	-	-	1,484
Commercial Paper	202,416	-	-	-	-	-	-	-	202,416
Money Market Funds	69,408	-	-	-	-	-	-	-	69,408
Municipal Bonds	4,593	3,796	-	-	797	-	-	-	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2006

	FAIR VALUE	QUALITY RATINGS							UNRATED
		AAA	AA	A	BBB	BB	B	A-1	
Govt Agency Securities	\$ 490,222	\$ 339,379	\$ 2,845	\$ 1,232	\$ 10,498	\$ 20,817	\$ 2,271	\$ -	\$ 113,180
Corporate Bonds	294,472	32,788	85,124	87,571	22,800	25,727	25,020	-	15,442
Collateral Mortgage Obligations	147,111	139,594	1,865	-	-	-	849	-	4,803
Asset Backed Securities	146,750	129,894	722	1,005	220	351	1,725	-	12,833
Commercial Paper	88,608	-	-	-	-	-	-	7,791	80,817
Money Market Funds	223,259	-	-	-	-	-	-	-	223,259
Municipal Bonds	19,858	18,695	902	-	261	-	-	-	-

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages and non-U.S. sovereign issuers, to 5 percent of the total account.

At June 30, 2006, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent or more of total investments in Federal Farm Credit Bank (6 percent), Federal Home Loan Bank (8 percent), Federal Home Loan Mortgage Corporation (7 percent), and Federal National Mortgage Corporation (9 percent). Fiduciary funds had no investments that exceeded 5 percent or more of total investments.

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary

custodial bank administers the securities lending program and receives cash, United States government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 38 and 50 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the State by the contract with the custodian.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State does not have a formal policy to limit foreign currency risk. Primary Government exposure to foreign currency risk is presented on the following tables.

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
FOREIGN CURRENCY AT JUNE 30, 2006**

	CASH	EQUITY SECURITIES	DEBT SECURITIES
Currency			
Australian Dollar	\$ -	\$ 522	\$ -
Canadian Dollar	13	162	47
Euro Currency	-	4,810	-
Hong Kong Dollar	-	492	-
Indonesian Rupiah	-	40	-
Japanese Yen	129	1,772	-
Mexican Peso	9	-	178
Polish Zloty	-	111	-
Pound Sterling	20	2,420	118
Singapore Dollar	4	77	-
South Korean Won	-	533	-
Swedish Krona	2	388	-
Swiss Franc	5	1,099	-
Thailand Baht	-	51	-
Total	<u>\$ 182</u>	<u>\$ 12,477</u>	<u>\$ 343</u>

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2006

	CASH	EQUITY SECURITIES	DEBT SECURITIES
Currency			
Argentine Peso	\$ 3	\$ -	\$ 207
Australian Dollar	12	7,661	-
Canadian Dollar	69	1,285	248
Danish Krone	-	220	-
Euro Currency	1,484	80,993	6,856
Hong Kong Dollar	37	7,356	-
Indonesian Rupiah	-	647	-
Japanese Yen	6,892	28,970	-
Mexican Peso	151	-	2,520
Polish Zloty	-	1,504	-
Pound Sterling	80	36,743	588
Singapore Dollar	-	1,823	-
South Korean Won	2	7,933	-
Swedish Krona	26	5,611	-
Swiss Franc	16	22,141	-
Thailand Baht	2	870	-
Total	<u>\$ 8,774</u>	<u>\$ 203,757</u>	<u>\$ 10,419</u>

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates or financial indices. Over 75% of all such instruments are pension trust investments; the remaining are endowment investments. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Investment Council-approved Derivatives

Policy. The State invests in futures contracts, options and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. Government or Government Agency obligations and based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. At June 30, 2006, the State held futures contracts with a notional value of \$(428,200) and a market value of \$0. In addition, the State held options with a notional value of \$(15,319) and a market value of \$(845) and swaps with a notional value of \$10,300 and a market value of \$(1,962).

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2006, is as follows:

Disclosure Regarding Deposits and Investments:

Total Investments	\$ 12,564,895
Carrying amount of Deposits	109,563
Total	<u>\$ 12,674,458</u>

Statement of Net Assets:

Cash and Cash Equivalents	\$ 400,952
Investments	2,312,712
Restricted Cash and Cash Equivalents	20,529
Securities Lending Collateral	555,628

Statement of Fiduciary Net Assets:

Cash and Cash Equivalents	109,282
Investments	9,072,429
Securities Lending Collateral	202,926
Total	<u>\$ 12,674,458</u>

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2006:

Governmental Activities:

General Fund	\$ 11,453
Federal Fund	17,270
Health and Social Services Fund	17,263
Total Governmental Activities	<u>\$ 45,986</u>

Business-type Activities:

Unemployment Compensation	\$ 6,529
Total Business-type Activities	<u>\$ 6,529</u>

Of the taxes and other receivables, \$11,846 and \$18,626, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by deferred revenue in the General Fund and the Health and Social Services Fund.

4. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 494,067	\$ 14,071	\$ -	\$ 508,138
Infrastructure	6,261,582	132,800	-	6,394,382
Construction in progress	65,884	18,457	25,262	59,079
Total capital assets, not being depreciated	6,821,533	165,328	25,262	6,961,599
Capital assets, being depreciated:				
Buildings and improvements	429,140	25,202	1,001	453,341
Equipment	335,853	38,561	23,021	351,393
Total capital assets, being depreciated	764,993	63,763	24,022	804,734
Less accumulated depreciation for:				
Buildings and improvements	199,995	11,725	556	211,164
Equipment	230,816	34,753	20,203	245,366
Total accumulated depreciation	430,811	46,478	20,759	456,530
Total capital assets, being depreciated, net	334,182	17,285	3,263	348,204
Governmental activities capital assets, net	\$ 7,155,715	\$ 182,613	\$ 28,525	\$ 7,309,803
Business-type activities:				
Unemployment Compensation				
Equipment, being depreciated	\$ 373	\$ 254	\$ 199	\$ 428
Less accumulated depreciation	256	119	199	176
Total Unemployment Compensation, net	117	135	-	252
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	315	-	-	315
Capital assets, being depreciated:				
Buildings and improvements	6,094	-	899	5,195
Equipment	4,523	939	1,074	4,388
Total capital assets, being depreciated	10,617	939	1,973	9,583
Less accumulated depreciation for:				
Buildings and improvements	1,621	398	899	1,120
Equipment	2,878	422	651	2,649
Total accumulated depreciation	4,499	820	1,550	3,769
Total capital assets, being depreciated, net	6,118	119	423	5,814
Total Nonmajor Enterprise, net	6,433	119	423	6,129
Business-type activities capital assets, net	\$ 6,550	\$ 254	\$ 423	\$ 6,381

Current period depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
General Government	\$ 15,174
Conservation of Natural Resources	1,752
Culture – Recreation	1,571
Economic Development and Assistance	371
Education	1,207
Health and Social Services	985
Public Safety	10,572
Regulation of Business and Professions	288
Transportation	14,558
Total depreciation expense -	
Governmental activities	\$ 46,478

Construction Commitments. At June 30, 2006, the State had contractual commitments of approximately \$467,409 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 77,844
State funds	372,690
Local funds	16,875
	<u>\$ 467,409</u>

Most of these commitments will not be reflected as capital asset increases when they are paid because the State is using the modified approach to account for infrastructure. Under this method, capital asset additions are only reflected when improvements expand the capacity or efficiency of an asset.

5. Interfund Balances

Due To/From Other Funds at June 30, 2006, consists of the following:

	DUE TO								TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
DUE FROM									
General Fund	\$ -	\$ 75	\$ 23	\$ 78	\$ 361	\$ 106	\$ 30,256	\$ 32,914	\$ 63,813
Highway Fund	-	-	-	-	-	136	6,406	-	6,542
Federal Fund	64,519	7	-	2,805	1,362	121	3,426	-	72,240
Health and Social Services	-	2	600	-	920	-	13,073	-	14,595
Permanent School Fund	13	-	-	-	-	-	5	-	18
Nonmajor Governmental Funds	3,794	20	480	53	26	8	5,443	555	10,379
Nonmajor Enterprise Funds	-	14	-	-	-	-	153	-	167
Internal Service Funds	4,660	662	5	-	197	3	871	-	6,398
Fiduciary Funds	-	-	-	-	49	-	70	-	119
TOTALS	\$ 72,986	\$ 780	\$ 1,108	\$ 2,936	\$ 2,915	\$ 374	\$ 59,703	\$ 33,469	\$ 174,271

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilities, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature, except for \$47,400 due from the General Fund, Highway Fund, Health and Social Services, and Nonmajor Governmental Funds to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2006, consist of the following:

	TRANSFERRED TO:						TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Internal Service Funds	
TRANSFERRED FROM:							
General Fund	\$ -	\$ -	\$ 87	\$ -	\$ 51,188	\$ -	\$ 51,275
Highway Fund	-	-	-	-	7,091	-	7,091
Federal Fund	606	-	-	-	13,151	-	13,757
Health & Social Services Fund	1,553	-	-	-	3,118	-	4,671
Nonmajor Governmental Funds	42,126	14,670	1	2,716	8,072	-	67,585
Nonmajor Enterprise Funds	-	-	-	771	26,831	-	27,602
Internal Service Funds	-	-	-	-	-	1,100	1,100
TOTALS	\$ 44,285	\$ 14,670	\$ 88	\$ 3,487	\$ 109,451	\$ 1,100	\$ 173,081

Transfers are used to (1) move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them, (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) move profits from the State Lottery Fund as required by law.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2006, consists of the following:

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Other Funds	Unemployment Compensation	Nonmajor Enterprise Funds	TOTALS
Payroll and Withholdings	\$ 13,634	\$ 6,687	\$ 3,312	\$ 851	\$ -	\$ 1,903	\$ 1,842	\$ 4	\$ 276	\$ 28,509
Payables and Accruals	60,630	49,103	61,698	10,624	7,852	27,756	13,745	2,440	7,985	241,833
Due to Fiduciary Funds *	-	-	-	-	-	-	33,469	-	-	33,469
Miscellaneous	-	-	-	-	-	32	673	22	72	799
TOTALS	\$ 74,264	\$ 55,790	\$ 65,010	\$ 11,475	\$ 7,852	\$ 29,691	\$ 49,729	\$ 2,466	\$ 8,333	\$ 304,610

* This amount represents amounts due to fiduciary funds, which were classified as external payables on the government-wide Statement of Net Assets.

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2006, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	\$ 417,683	\$ 1,550,787	\$ 1,683,938	\$ 284,532	\$ 216,845
Bonds Payable	23,430	-	3,995	19,435	4,195
Capital Lease Obligations	24,927	3,940	5,903	22,964	6,379
Obligations Under Other Financing Arrangements	11,430	5,420	665	16,185	2,380
Compensated Absences	110,246	19,834	17,195	112,885	16,287
Pension Benefit Obligation	16,060	-	16,060	-	-
Totals	\$ 603,776	\$ 1,579,981	\$ 1,727,756	\$ 456,001	\$ 246,086
Business-type Activities:					
Unemployment Compensation:					
Claims Payable	\$ 13,088	\$ 101,678	\$ 104,060	\$ 10,706	\$ 10,706
Compensated Absences	15	47	47	15	2
Totals for Unemployment Compensation	13,103	101,725	104,107	10,721	10,708
Nonmajor Enterprise Funds:					
Claims Payable	40,000	12,052	10,552	41,500	13,220
Compensated Absences	497	157	72	582	84
Totals for Nonmajor Enterprise Funds	40,497	12,209	10,624	42,082	13,304
Totals for Business-type Activities	\$ 53,600	\$ 113,934	\$ 114,731	\$ 52,803	\$ 24,012

The amount of claims payable reported in the fund financial statements are due and payable at fiscal year end. Claims payable, compensated absences and capital lease obligations typically have been liquidated in the general, special revenue and internal service funds. Bonds payable and obligations under other financing arrangements have been liquidated in the special revenue funds.

8. Bonds Payable

Article XIII of the State's Constitution prohibits the State from incurring debt in excess of one hundred

thousand dollars. However, there is a provision in the State's Constitution that permits the issuance of revenue bonds for: (1) construction of highways; and (2) construction of water conservation and management structures. At June 30, 2006, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued \$22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May

2002, the NETC Leasing Corporation issued \$9,850 of lease rental revenue bonds to renovate facilities. The NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2006 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State for its data processing and general services operations. In September 1987, the NSBC issued \$7,700 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations

outstanding at June 30, 2006 are collateralized by the revenues of the NSBC, which consist primarily of building rental paid by the State.

The component units issue bonds for various purposes including student housing, parking facilities and special event centers. Net revenues from student housing and dining facilities, special student fees and parking facilities fees are pledged to secure the appropriate issues.

All outstanding bond issues of the University of Nebraska Facilities Corporation and the Nebraska State College Facilities Corporation are general obligations of these corporations. They are separate legal entities that are not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2006 are collateralized by a special allocation of a portion of the State cigarette tax.

BONDS PAYABLE	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2006
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000,2002	Through 2010	2.70%-6.00%	\$ 17,350
Nebraska State Building Corporation Issue	2002	Through 2009	1.50%-3.85%	2,085
Primary Government Total				<u>\$ 19,435</u>
COMPONENT UNITS				
University of Nebraska	1998-2006	Through 2038	1.05%-5.80%	\$ 374,220
Nebraska State Colleges	1999-2003	Through 2028	1.60%-5.05%	29,515
Component Units Total				<u>\$ 403,735</u>

PRIMARY GOVERNMENT DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2007	4,195	1,014	5,209
2008	4,405	808	5,213
2009	5,985	584	6,569
2010	4,850	291	5,141
Total	<u>\$ 19,435</u>	<u>\$ 2,697</u>	<u>\$ 22,132</u>

COMPONENT UNITS DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2007	25,515	18,492	44,007
2008	25,845	17,403	43,248
2009	30,080	16,214	46,294
2010	31,070	14,879	45,949
2011	14,925	13,634	28,559
2012-2016	102,310	55,339	157,649
2017-2021	61,025	35,756	96,781
2022-2026	55,795	20,607	76,402
Thereafter	57,170	17,277	74,447
Total	<u>\$ 403,735</u>	<u>\$ 209,601</u>	<u>\$ 613,336</u>

Bond Defeasances – Component Units

On July 6, 2005, the University of Nebraska Board of Regents issued \$26,925 of Revenue and Refunding Bonds to construct a multi-level parking garage for an approximate cost of \$8,200 and to refund \$18,885 of outstanding 2000 Series Revenue Bonds. The refunding reduced total debt service payments by approximately \$3,099 and resulted in an economic gain of \$1,438.

On July 1, 2005, the University of Nebraska Board of Regents issued \$6,085 of Series 2005 Refunding Bonds to refund \$5,895 of outstanding Series 2000 Revenue Refunding Bonds. The Series 2000 Revenue Refunding Bonds were called on August 16, 2005. The refunding reduced total debt service payments by approximately \$857 and resulted in an economic gain of approximately \$549.

On July 10, 2005, the University of Nebraska Board of Regents authorized the redemption of the Series 1966 Student Fees and Facilities Revenue Bonds maturing on July 1, 2006 from surplus funds held for the Revenue Bonds. The early redemption on July 10, 2005 of the Series 1966 Bonds resulted in net interest savings of approximately \$10.

9. Lease Commitments

Capital and Operating Leases. The State leases land, office facilities, equipment, and other assets under both capital and operating leases. Although the lease terms may vary, all leases are subject to annual appropriation by the Legislature.

The minimum annual lease payments and the present value of future minimum payments for capital leases as of June 30, 2006 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2007	\$ 7,183
2008	5,728
2009	5,512
2010	3,010
2011	823
2012-2016	2,657
2017-2021	818
Total Minimum Payments	25,731
Less: Interest and executory costs	2,766
Present value of net minimum payments	<u>\$ 22,965</u>

Capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of property and equipment under capital leases as of June 30, 2006:

	GOVERNMENTAL ACTIVITIES
Buildings	\$ 7,070
Equipment	36,230
Less: accumulated depreciation	(19,035)
Carrying value	<u>\$ 24,265</u>

The minimum annual lease payments for operating leases as of June 30, 2006 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2007	\$ 7,173
2008	3,327
2009	3,202
2010	3,174
2011	1,989
2012-2016	904
2017-2021	427
Total	<u>\$ 20,196</u>

Primary Government operating lease payments for the year ended June 30, 2006 totaled \$13,470.

Lessor Transactions. The State also is a lessor of property, primarily farm land leased by the Board of Educational Lands and Funds to farmers and ranchers.

At June 30, 2006, the State owned approximately 1.5 million acres of land that was under lease, with a cost and carrying amount of \$3,000. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$27,268 were received under these and other lease agreements for the year ended June 30, 2006.

10. Obligations Under Other Financing Arrangements

The State has entered into special financing arrangements with certain public benefit corporations to fund certain grant programs. Under these arrangements, the State enters into an agreement with a public benefit corporation, the Nebraska Investment Finance Authority (NIFA), whereby NIFA issues bonds, the proceeds of which, along with federal capitalization grants, are used to provide loans to various municipalities and local units of government in Nebraska that qualify for such loans. Such loans are used for improvements to wastewater and drinking water treatment facilities. Funds to repay NIFA come from the municipalities and units of government to which the loans are given.

A summary of the future minimum contractual obligations including interest at rates from 1.85 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 2,380	\$ 816	\$ 3,196
2008	940	606	1,546
2009	985	568	1,553
2010	1,035	528	1,563
2011	1,070	485	1,555
2012-2016	6,815	1,632	8,447
2017-2021	2,960	294	3,254
Total	<u>\$ 16,185</u>	<u>\$ 4,929</u>	<u>\$ 21,114</u>

11. Pension Plans

Plans Administered by the Public Employees Retirement Board

The Public Employees Retirement Board (the Board), which consists of eight members, was created in 1971 to administer the Nebraska retirement plans then in existence. Those plans were the School, State Employees', Judges' and State Patrol plans. In October of 1973, the Board assumed the administration of the Nebraska Counties Retirement System. The plans have been created in accordance with Internal Revenue Code, Sections 401(a) and 414(h). Contribution and benefit provisions are established by State law and may only be amended by the State Legislature.

The Board prepares separate reports for the defined contribution plans and for the defined benefit plans. Copies of these reports that include financial statements and required supplementary information for the plans may be obtained by writing to Public Employees Retirement Systems, P.O. Box 94816, Lincoln, NE 68509-4816, or by calling 402-471-2053.

Basis of Accounting. The financial statements of the plans are prepared using the accrual basis of accounting, and are included as pension trust funds in the accompanying financial statements. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Plan Description and Funding Policy. By State law, there is to be an equitable allocation of expenses among the retirement systems administered by the Board, and all expenses shall be provided from the investment income earned by the various retirement funds. Following is a summary of each of these plans:

State Employees' Retirement. The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2005.

Participation in the plan is required for all permanent full-time employees upon completion of 12 months

of continuous service. Each member contributes 4.33 percent of their compensation until \$864 (not in thousands) has been paid and 4.8 percent of pay for the rest of the calendar year. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2005, there were 15,351 active members and 2,133 inactive members. Members contributed \$24,262 and the State contributed \$37,927 during the year ended December 31, 2005, which was equal to required contributions.

County Employees' Retirement. In 1973, the State Legislature brought the County Employees' Retirement System under the administration of the Board. This multiple-employer plan covers employees of 91 of the 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees by State law. Prior to January 1, 2003, the plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2005.

Participation in the plan is required of all full-time employees upon the completion of 12 months of continuous service and of all full-time elected officials. Full-time or part-time employees (working less than one-half of regularly scheduled hours) may elect voluntary participation upon reaching age 20 and completing a total of 12 months service within a five-year period. Part-time elected officials may exercise the option to join. County employees and elected officials contribute four and one half percent and commissioned law enforcement personnel (for participating counties with an excess of 85,000 inhabitants) contribute five and one half percent of their total compensation. The counties match a member's contribution at a rate of 150 percent. The State is not required to contribute to this plan.

As of December 31, 2005, there were 6,727 active members and 1,006 inactive members. Members contributed \$8,220 and counties contributed \$12,074 during the year ended December 31, 2005, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 280 participating school districts.

All regular public school employees in Nebraska, other than those who have their own retirement plan, are members of the system. The benefits are based on both service and contributions.

The State's contribution is based on an annual actuarial valuation. The employees' contribution was 7.25 percent of their total pay to August 31, 2005, and 7.98 percent through August 31, 2006. The school district's contribution is 101 percent of the employees' contribution.

Judges' Retirement. The Judges' Retirement System is a single-employer defined benefit pension system. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Court, Workers' Compensation Court, County Court, and Juvenile Court. Benefits are based on both service and final average salary. Benefits vest when the judge takes office.

Members' contributions, a portion of court fees collected, and the State's contribution, which is

based on an annual actuarial valuation, fund the plan. The judges contribute between four and eight percent of their salary.

State Patrol Retirement. The State Patrol Retirement System is a single-employer defined benefit pension system for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the average salary. Participation is mandated upon employment.

Members are required to contribute thirteen percent of their monthly salary, and State Patrol contributes fifteen percent. The State's contribution is based on an annual actuarial valuation.

The following tables provide the schedules of funding progress and the primary actuarial assumptions used in the most recent actuarial reports for the single-employer defined benefit plans:

**UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(a-b) Excess of Assets over AAL (Unfunded AAL)	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Excess/UAAL as a Percentage of Covered Payroll
State Cash Balance						
12/31/2005	\$ 342,730	\$ 300,852	\$ 41,878	113.9 %	\$ 238,874	17.5 %
12/31/2004	297,573	272,300	25,273	109.3	192,619	13.1
12/31/2003	254,176	241,192	12,984	105.4	171,324	7.6
Judges'						
6/30/2006	\$ 100,566	\$ 101,438	\$ (872)	99.1 %	\$ 16,423	(5.3)%
6/30/2005	94,923	98,513	(3,590)	96.4	16,285	(22.0)
6/30/2004	92,811	95,671	(2,860)	97.0	16,655	(17.2)
State Patrol						
6/30/2006	\$ 231,741	\$ 245,373	\$ (13,632)	94.4 %	\$ 24,058	(56.7)%
6/30/2005	219,831	236,026	(16,195)	93.1	22,882	(70.8)
6/30/2004	216,423	222,162	(5,739)	97.4	22,641	(25.3)

	STATE CASH BALANCE	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2005	6/30/2006	6/30/2006
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Amount Closed	Level Amount Closed	Level Amount Closed
Amortization Period	25 Years	30 Years	30 Years
Mortality	1994 Group Annuity Table	1994 Group Annuity Table	1994 Group Annuity Table
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return **	7.6%	8.0%	8.0%
Projected Salary Increases **	4.5% to 9.1%	5.0%	4.5% to 12.0%

** Includes assumed inflation of 3.5% per year.

THREE - YEAR TREND INFORMATION			
YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
State Cash Balance			
12/31/2005	\$14,885	100%	\$ -
12/31/2004	13,171	100%	-
12/31/2003	11,226	100%	-
County Cash Balance			
12/31/2005	\$ 5,521	100%	\$ -
12/31/2004	4,869	100%	-
12/31/2003	4,093	100%	-
School			
6/30/2006	\$30,717	100%	\$ -
6/30/2005	29,817	90%	14,928
6/30/2004	14,155	100%	-
Judges'			
6/30/2006	\$ 3,120	100%	\$ -
6/30/2005	2,719	84%	434
6/30/2004	2,074	100%	-
State Patrol			
6/30/2006	\$ 5,082	100%	\$ -
6/30/2005	3,869	82%	698
6/30/2004	3,018	96%	112

12. Contingencies and Commitments

Grants and Contracts. The State participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State.

All State agencies including institutions of higher education are required to comply with various federal regulations issued by the U.S. Office of Management and Budget if such agency or institution is a recipient of federal grants, contracts, or other sponsored agreements. Certain agencies or institutions may not be in total compliance with these regulations. Failure to comply may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. Management believes that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the State.

Litigation. The State is named as a party in legal proceedings that occur in the normal course of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of State and Federal laws. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the

State for these proceedings. It is the State's opinion that the ultimate liability for these and other proceedings is not expected to have a material adverse effect on the State's financial position.

The State also has been named as a party in legal proceedings that occur outside of the normal course of governmental operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State for all of these proceedings. The effects of this litigation, if any, will be reflected in future years, as the uncertainties regarding the litigation are determined.

The State is a party to a lawsuit relating to \$37,000 of tobacco settlement money the State received in April 2004. It is not possible at the present time to determine the outcome of this lawsuit or its implications for potential similar future lawsuits.

13. Risk Management

Through the Department of Administrative Services, Divisions of Risk Management and State Personnel, the State maintains insurance and self-insurance programs. Workers' compensation, health care, employee liability and general liability are generally self-insured. However, the State does carry surety bonds for constitutional officers and limited general liability on two buildings. Motor vehicle liability is insured with a \$5,000 limit and a \$300 retention per occurrence (the self-insured retention for vehicular pursuit is \$1,000) and employee dishonesty is insured with a \$1,000 limit with a \$25 retention per incident. The State insures against property damage, maintaining a policy with a \$100,000 limit and a \$200 retention per occurrence. The State also carries some insurance for personal property damage. Settled claims have not exceeded this commercial insurance coverage in any of the past three years. The Division of State Personnel provides life insurance for eligible State employees. These activities are reported in the Risk Management Internal Service Fund.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liability for workers' compensation is recorded at a discounted rate of three percent (\$8,023), which resulted in a liability of \$50,826.

Changes in the balances of claims liabilities during the years ended June 30, 2006, and 2005, were as follows:

	Fiscal Year	
	2006	2005
Beginning Balance	\$ 64,211	\$ 60,329
Current Year Claims and Changes in Estimates	165,558	152,259
Claim Payments	(166,208)	(148,377)
Ending Balance	<u>\$ 63,561</u>	<u>\$ 64,211</u>

14. Joint Venture

The Board of Regents of the University of Nebraska and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement in 1997 forming the Nebraska Health System, a Nebraska nonprofit corporation doing business as the Nebraska Medical Center (NMC). A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NMC. Upon dissolution of NMC, the University and Clarkson will share equally in the remaining net assets. Because the University has an ongoing financial interest in NMC, the University is accounting for the joint venture under the equity method. The University has recorded fifty percent equity in the change in net assets of NMC for the year ended June 30, 2006 totaling approximately \$43,898. In addition, to the extent that sufficient funds are available as determined by the NMC Board of Directors, the University will receive an annual capital distribution. A distribution of \$3,000 was declared and paid out for fiscal year 2006.

In conjunction with the Joint Operating Agreement, the Board of Regents also entered into an Academic Affiliation Agreement for Education and Research with NMC. In connection with this agreement, NMC has agreed to financially support certain educational, research, operational and clinical activities of the University that further the mission and objectives of NMC. During the year ended June 30, 2006, the University received approximately \$22,273 of support in connection with the agreement.

Separate financial statements of NMC can be obtained from the Nebraska Medical Center, 42nd Street and Dewey Avenue, Omaha NE 68105.

15. Accounting Changes

The Chadron State Foundation, a component unit of the Nebraska State College System, increased beginning Net Assets for previously unreported receivables. Accordingly, the Beginning Net Assets of the State Colleges, Component Unit were increased by \$3,459.

GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, No. 44, *Economic Condition Reporting: The Statistical Section*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*, were implemented during fiscal year 2006. As a result, the disclosures related to restricted net assets in Note 1.C. were expanded to include the amount of net assets restricted by enabling legislation and the Statistical Section was revised.

REQUIRED SUPPLEMENTARY INFORMATION



State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2006

(Dollars in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 2,992,355	\$ 3,178,097	\$ 3,252,285	\$ 74,188
Federal Grants and Contracts	35	35	35	-
Sales and Charges	21,963	21,963	21,963	-
Other	32,545	32,545	32,545	-
TOTAL REVENUES	3,046,898	3,232,640	3,306,828	74,188
EXPENDITURES:				
Current:				
General Government	220,887	224,650	211,088	13,562
Conservation of Natural Resources	42,618	42,667	26,447	16,220
Culture – Recreation	5,791	5,844	5,507	337
Economic Development and Assistance	6,878	6,894	5,207	1,687
Education	1,461,157	1,467,038	1,433,720	33,318
Health and Social Services	1,092,267	1,092,035	1,020,220	71,815
Public Safety	215,750	204,127	190,144	13,983
Regulation of Business and Professions	3,782	3,798	3,631	167
Transportation	18	18	17	1
TOTAL EXPENDITURES	3,049,148	3,047,071	2,895,981	151,090
Excess of Revenues Over (Under) Expenditures	(2,250)	185,569	410,847	225,278
OTHER FINANCING SOURCES (USES):				
Transfers In	306,454	306,454	306,454	-
Transfers Out	(458,816)	(458,816)	(458,816)	-
Other	5	5	5	-
TOTAL OTHER FINANCING SOURCES (USES)	(152,357)	(152,357)	(152,357)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(154,607)	33,212	258,490	225,278
FUND BALANCES, JULY 1	578,937	578,937	578,937	-
FUND BALANCES, JUNE 30	\$ 424,330	\$ 612,149	\$ 837,427	\$ 225,278

A reconciliation of the budgetary basis versus GAAP fund balance for the
General Fund as of June 30, 2006, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2006

General	\$ 563,810
Cash Reserve	273,617
Budgetary fund balances	837,427

DIFFERENCES DUE TO BASIS OF ACCOUNTING:

Record taxes receivable	295,987
Record tax refund liability	(273,685)
Record State contributions due pension funds	(32,203)
Record claims payable	(98,671)
Record other net accrued receivables and liabilities	(36,616)
GAAP fund balance, June 30, 2006	<u>\$ 692,239</u>

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)				
	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 101,664	\$ 101,664	\$ 101,664	\$ -
Federal Grants and Contracts	302,626	302,626	302,626	-
Sales and Charges	342,118	342,118	342,118	-
Other	202,850	202,850	202,850	-
TOTAL REVENUES	949,258	949,258	949,258	-
EXPENDITURES:				
Current:				
General Government	220,058	222,167	200,661	21,506
Conservation of Natural Resources	76,512	77,008	45,852	31,156
Culture – Recreation	24,376	24,526	18,166	6,360
Economic Development and Assistance	52,316	52,324	17,343	34,981
Education	336,489	354,399	284,895	69,504
Health and Social Services	158,950	159,438	114,049	45,389
Public Safety	37,536	41,854	30,295	11,559
Regulation of Business and Professions	160,497	172,170	143,612	28,558
Transportation	730,650	748,903	669,366	79,537
Capital Projects	50,658	50,660	11,116	39,544
TOTAL EXPENDITURES	1,848,042	1,903,449	1,535,355	368,094
Excess of Revenues Over (Under) Expenditures	(898,784)	(954,191)	(586,097)	368,094
OTHER FINANCING SOURCES (USES):				
Transfers In	1,041,065	1,041,065	1,041,065	-
Transfers Out	(489,482)	(489,482)	(489,482)	-
Other	2,751	2,751	2,751	-
TOTAL OTHER FINANCING SOURCES (USES)	554,334	554,334	554,334	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(344,450)	(399,857)	(31,763)	368,094
FUND BALANCES, JULY 1	633,656	633,656	633,656	-
FUND BALANCES, JUNE 30	\$ 289,206	\$ 233,799	\$ 601,893	\$ 368,094

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2006, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2006

Cash	\$ 601,893
Construction	7,485
Federal	71,397
Revolving	181,886

Budgetary fund balances 862,661

DIFFERENCES DUE TO BASIS OF ACCOUNTING AND NONMAJOR FUNDS: 107,813

GAAP fund balance, June 30, 2006 \$ 970,474

Actual Fund Balances of Major Funds, June 30, 2006

Highway	\$ 99,964
Federal	15,209
Health and Social Services	434,243
Permanent School	421,058

GAAP fund balance, June 30, 2006 \$ 970,474

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

CONSTRUCTION FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	339	339	339	-
TOTAL REVENUES	<u>339</u>	<u>339</u>	<u>339</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	14	14	-	14
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	11,973	11,973	8,350	3,623
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	25,197	25,197	15,099	10,098
TOTAL EXPENDITURES	<u>37,184</u>	<u>37,184</u>	<u>23,449</u>	<u>13,735</u>
Excess of Revenues Over (Under) Expenditures	<u>(36,845)</u>	<u>(36,845)</u>	<u>(23,110)</u>	<u>13,735</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	28,457	28,457	28,457	-
Transfers Out	-	-	-	-
Other	490	490	490	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>28,947</u>	<u>28,947</u>	<u>28,947</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(7,898)</u>	<u>(7,898)</u>	<u>5,837</u>	<u>13,735</u>
FUND BALANCES, JULY 1	<u>1,648</u>	<u>1,648</u>	<u>1,648</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ (6,250)</u>	<u>\$ (6,250)</u>	<u>\$ 7,485</u>	<u>\$ 13,735</u>

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,034,615	2,034,615	2,034,615	-
Sales and Charges	13,444	13,444	13,444	-
Other	9,930	9,930	9,930	-
TOTAL REVENUES	<u>2,057,989</u>	<u>2,057,989</u>	<u>2,057,989</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	4,585	5,170	3,613	1,557
Conservation of Natural Resources	56,542	60,673	42,617	18,056
Culture – Recreation	4,070	5,971	2,368	3,603
Economic Development and Assistance	102,412	103,736	62,363	41,373
Education	832,809	843,036	534,603	308,433
Health and Social Services	1,558,272	1,556,094	1,318,223	237,871
Public Safety	89,696	98,788	67,725	31,063
Regulation of Business and Professions	1,314	1,693	1,083	610
Transportation	-	-	-	-
Capital Projects	16,049	16,049	4,842	11,207
TOTAL EXPENDITURES	<u>2,665,749</u>	<u>2,691,210</u>	<u>2,037,437</u>	<u>653,773</u>
Excess of Revenues Over (Under) Expenditures	<u>(607,760)</u>	<u>(633,221)</u>	<u>20,552</u>	<u>653,773</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	7,348	7,348	7,348	-
Transfers Out	(7,813)	(7,813)	(7,813)	-
Other	(472)	(472)	(472)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(937)</u>	<u>(937)</u>	<u>(937)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(608,697)</u>	<u>(634,158)</u>	<u>19,615</u>	<u>653,773</u>
FUND BALANCES, JULY 1	<u>51,782</u>	<u>51,782</u>	<u>51,782</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u><u>\$ (556,915)</u></u>	<u><u>\$ (582,376)</u></u>	<u><u>\$ 71,397</u></u>	<u><u>\$ 653,773</u></u>

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,906	2,906	2,906	-
Sales and Charges	404,521	404,521	404,521	-
Other	142,435	142,435	142,435	-
TOTAL REVENUES	549,862	549,862	549,862	-
EXPENDITURES:				
Current:				
General Government	187,441	191,118	144,032	47,086
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	444	446	404	42
Education	379,066	419,074	374,795	44,279
Health and Social Services	-	-	-	-
Public Safety	16,751	16,774	12,856	3,918
Regulation of Business and Professions	-	-	-	-
Transportation	500	500	-	500
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	584,202	627,912	532,087	95,825
Excess of Revenues Over (Under) Expenditures	(34,340)	(78,050)	17,775	95,825
OTHER FINANCING SOURCES (USES):				
Transfers In	31,864	31,864	31,864	-
Transfers Out	(37,255)	(37,255)	(37,255)	-
Other	660	660	660	-
TOTAL OTHER FINANCING SOURCES (USES)	(4,731)	(4,731)	(4,731)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(39,071)	(82,781)	13,044	95,825
FUND BALANCES, JULY 1	168,842	168,842	168,842	-
FUND BALANCES, JUNE 30	\$ 129,771	\$ 86,061	\$ 181,886	\$ 95,825

See independent auditors' report

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2006

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, all State agencies, including the university and colleges, must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, subprograms, and activities. The Governor reviews the agency requests, establishes priorities, and presents the Legislature with one or more pieces of legislation covering the biennium. The Legislature holds hearings on the Governor's proposed budget, adopts changes and presents final legislation to the Governor. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The approved appropriations set spending limits by fund type for programs within each agency. These limits may include up to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the State Accounting Division of the Department of Administrative Services.

Appropriations are made for each fiscal year of the biennium; balances at the end of the first fiscal year are carried over into the second fiscal year, unless directed otherwise by the Legislature. For most appropriations, balances lapse at the end of the biennium.

The budgetary fund types used by the State differ from those presented in the basic financial statements. The budgetary funds, which are listed below, are generally segregated by revenue sources. Of these seven fund types, only the first five are subject to the spending limits set by the appropriations bills. The General Fund is the only major fund that corresponds to a budgetary fund type.

General Fund. To account for activities funded by general tax dollars, primarily sales and income taxes.

Cash Reserve Fund. To account for financial resources used as a reserve for the General Fund if the General Fund balance should become inadequate to meet current obligations. The Cash Reserve Fund is part of the budgetary basis fund balance.

Cash Funds. To account for the financing of goods or services provided by a State agency to individuals or entities outside State government on a cost-reimbursement basis, and to account for the revenues and expenditures related to highway construction.

Construction Funds. To account for financial resources to be used for the acquisition or construction of major capital facilities.

Federal Funds. To account for the financial resources related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts, except for federal highway monies accounted for in the Cash Funds.

Revolving Funds. To account for the financing of goods or services provided by one State agency to another State agency on a cost-reimbursement basis.

Trust Funds. To account for assets held in a trustee capacity.

Distributive Funds. To account for assets held as an agent for individuals, private organizations, and other governments and/or other funds.

The accompanying basic financial statements were prepared by converting budgetary fund data into the fund format required by GAAP. The cash basis of accounting is used for all budgetary fund types.

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2006, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2006, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

REQUIRED SUPPLEMENTARY INFORMATION **INFORMATION ABOUT INFRASTRUCTURE ASSETS** **REPORTED USING THE MODIFIED APPROACH**

For the Year Ended June 30, 2006

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of highway and bridges the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Measurement Scale

The Nebraska Department of Roads uses the Nebraska Serviceability Index (NSI) to measure and monitor pavement conditions. The NSI is a numerical pavement rating scale used to monitor the condition on a scale ranging from 0 to 100 with 0 being the worst and 100 being the best. NSI represents the condition of the pavement at the time of measurement and is based on pavement’s surface distresses. Surface distresses include cracking, patching, roughness, rutting, and faulting.

Established Condition Level

It is the policy of the Nebraska Department of Roads to maintain at least an overall system rating of 72 percent or above.

Assessed Condition

The State assesses conditions on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Very Good”, “Good”, “Fair”, and “Poor”. This condition index is used to classify roads in very good (90-100), good (70-89), fair (50-69), and poor (0-49).

<u>Calendar Year</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Very Good	39%	39%	40%	38%	48%	50%
Good	46%	46%	44%	43%	36%	35%
Fair	12%	12%	14%	16%	13%	13%
Poor	3%	3%	2%	3%	3%	2%
Overall System Rating	84.0%	83.0%	83.0%	83.0%	84.0%	84.0%

Estimated and Actual Costs to Maintain

The following table presents the State’s estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal years (amounts in millions). Beginning in Fiscal Year 2005, a newly developed Pavement Optimization Program was used to calculate the annual amount required to maintain the highway system at a NSI of 72 by performing a cost-benefit analysis of various improvement strategies by pavement section. This has resulted in a lower estimated annual cost. However, the actual cost of system preservation is greater than estimated as a result of maintaining the system at a NSI level higher than the base level established for GASB-34 purposes (72 base versus 84 actual).

<u>Fiscal Year</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Estimated	\$ 148	\$ 125	\$ 123	\$ 179	\$ 174	\$ 169
Actual		214	221	200	199	194
Difference		89	98	21	25	25

COMBINING AND INDIVIDUAL FUND STATEMENTS





NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Licensing and Regulation. This fund accounts for all activities of agencies, boards, and commissions whose primary function is licensing individuals and regulating industry and professions. This includes a diverse group of professions such as abstracters, medical professions, barbers, engineers, architects and accountants.

Economic Development. This fund accounts for activities to develop and promote the growth of industry, agriculture, commerce and tourism, and utilization of resources within Nebraska.

Airport Development. This fund accounts for the activities relating to aircraft fuels tax, which is administered by the Department of Aeronautics for the support and maintenance of public airports.

Game and Parks. This fund accounts for the activities related to the Nebraska Game and Parks Commission, which is responsible for the development and preservation of the fish and wildlife resources of Nebraska, and operation and administration of the State park system.

Environmental Quality. This fund accounts for the activities related to the Department of Environmental Quality, which is responsible for the protection of Nebraska's air, land, and water resources.

Energy Conservation. This fund accounts for activities relating to the oil and gas severance taxes as well as energy conservation and development activities. The State Energy Office is responsible for providing technical assistance on energy conservation and development, distributing funds for the school weatherization program, and administering and distributing federal funds provided to the State in the area of energy efficiency.

State Building Corporation. This fund accounts for the activities of a blended component unit.

NETC Leasing Corporation. This fund accounts for the activities of a blended component unit.

Other Special Revenue. This fund accounts for various other revenues that must be used for specific purposes.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for construction of buildings financed with tax dollars.

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Aeronautics Trust Fund. This fund receives proceeds from the sale of state-owned airfields. Investment income is used to pay for expenses of the Department of Aeronautics.

Nebraska Veterans' Aid Fund. This fund accounts for the investment activity of a General Fund contribution made in a prior year. Earnings on the investment are used to provide emergency financial assistance to eligible veterans and dependents.

Permanent Endowment Fund. This fund receives the proceeds of sales of land and investments endowed to the University by the Federal Government. This fund is under the control of the Board of Educational Lands and Funds, which is a part of the primary government. Income on these funds is used for support and maintenance of the University.

Agriculture Endowment Fund. This fund receives the proceeds of sales of land and investments endowed to the University's Agriculture College by the Federal Government. This fund is under the control of the Board of Educational Lands and Funds, which is a part of the primary government. Income from this fund is used for support and maintenance of the College of Agriculture and Natural Resources.

Other Permanent Funds. Normal School Endowment, J.J. Soukup, and Miscellaneous Permanent Trust.

State of Nebraska
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

(Dollars in Thousands)

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTALS
ASSETS:				
Cash and Cash Equivalents	\$ 33,820	\$ 1,596	\$ 1,688	\$ 37,104
Cash on Deposit with Fiscal Agents	20,529	-	-	20,529
Investments	329,529	50,176	41,939	421,644
Securities Lending Collateral	105,976	16,500	4,259	126,735
Receivables, net of allowance				
Taxes	194	-	-	194
Due from Federal Government	733	-	-	733
Loans	210,147	9	-	210,156
Other	14,545	684	381	15,610
Due from Other Funds	2,915	-	-	2,915
Prepaid Items	141	-	-	141
Other	838	-	-	838
TOTAL ASSETS	<u>\$ 719,367</u>	<u>\$ 68,965</u>	<u>\$ 48,267</u>	<u>\$ 836,599</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 24,155	\$ 4,941	\$ 595	\$ 29,691
Due to Other Governments	753	-	-	753
Deposits	1,821	-	-	1,821
Due to Other Funds	9,935	444	-	10,379
Obligations under Securities Lending	105,976	16,500	4,259	126,735
TOTAL LIABILITIES	<u>142,640</u>	<u>21,885</u>	<u>4,854</u>	<u>169,379</u>
FUND BALANCES:				
Reserved for:				
Long-Term Receivables	210,147	9	-	210,156
Inventories and Prepaid Items	141	-	-	141
Debt Service	10,742	-	-	10,742
Endowment Principal	-	-	19,547	19,547
Unreserved	355,697	47,071	23,866	426,634
TOTAL FUND BALANCES	<u>576,727</u>	<u>47,080</u>	<u>43,413</u>	<u>667,220</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 719,367</u>	<u>\$ 68,965</u>	<u>\$ 48,267</u>	<u>\$ 836,599</u>

State of Nebraska

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2006

(Dollars in Thousands)

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTALS
REVENUES:				
Sales and Use Taxes	\$ 3,008	\$ -	\$ -	\$ 3,008
Petroleum Taxes	13,955	-	-	13,955
Excise Taxes	40,185	9,163	-	49,348
Business and Franchise Taxes	17,146	-	-	17,146
Other Taxes	5,673	-	-	5,673
Federal Grants and Contracts	32,678	5,645	-	38,323
Licenses, Fees and Permits	97,619	-	-	97,619
Charges for Services	25,171	-	-	25,171
Investment Income	10,715	965	2,703	14,383
Rents and Royalties	11,315	11,476	-	22,791
Surcharge	54,217	-	-	54,217
Other	25,819	22	-	25,841
TOTAL REVENUES	337,501	27,271	2,703	367,475
EXPENDITURES:				
Current:				
General Government	60,056	-	17	60,073
Conservation of Natural Resources	47,960	-	-	47,960
Culture – Recreation	18,468	-	-	18,468
Economic Development and Assistance	18,337	-	-	18,337
Education	7,485	-	115	7,600
Higher Education - Colleges and University	-	13,268	-	13,268
Health and Social Services	823	-	948	1,771
Public Safety	33,246	-	-	33,246
Regulation of Business and Professions	147,129	-	-	147,129
Transportation	20,100	-	136	20,236
Capital Projects	-	25,101	-	25,101
Debt Service:				
Principal	4,660	-	-	4,660
Interest	1,742	-	-	1,742
TOTAL EXPENDITURES	360,006	38,369	1,216	399,591
Excess of Revenues Over (Under)				
Expenditures	(22,505)	(11,098)	1,487	(32,116)
OTHER FINANCING SOURCES (USES):				
Transfers In	80,994	28,457	-	109,451
Transfers Out	(62,672)	(4,583)	(330)	(67,585)
Proceeds from Other Financing Arrangements	5,420	-	-	5,420
TOTAL OTHER FINANCING SOURCES (USES)	23,742	23,874	(330)	47,286
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,237	12,776	1,157	15,170
FUND BALANCES, JULY 1	575,490	34,304	42,256	652,050
FUND BALANCES, JUNE 30	\$ 576,727	\$ 47,080	\$ 43,413	\$ 667,220

State of Nebraska
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2006

(Dollars in Thousands)

	LICENSING AND REGULATION	ECONOMIC DEVELOPMENT	AIRPORT DEVELOPMENT	GAME AND PARKS
ASSETS:				
Cash and Cash Equivalents	\$ 3,395	\$ 1,554	\$ 5,906	\$ 1,780
Cash on Deposit with Fiscal Agents	-	-	-	-
Investments	104,634	46,732	-	48,493
Securities Lending Collateral	34,409	15,368	-	15,738
Receivables, net of allowance:				
Taxes	23	-	138	-
Due from Federal Government	-	-	-	682
Loans	-	431	2,837	-
Other	3,937	2,031	94	693
Due from Other Funds	876	-	27	592
Prepaid Items	4	-	6	58
Other	33	805	-	-
TOTAL ASSETS	<u>\$ 147,311</u>	<u>\$ 66,921</u>	<u>\$ 9,008</u>	<u>\$ 68,036</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 5,881	\$ 520	\$ 349	\$ 4,697
Due to Other Governments	11	-	-	4
Deposits	308	805	-	-
Due to Other Funds	228	64	14	2,371
Obligations under Securities Lending	34,409	15,368	-	15,738
TOTAL LIABILITIES	<u>40,837</u>	<u>16,757</u>	<u>363</u>	<u>22,810</u>
FUND BALANCES:				
Reserved for:				
Long-Term Receivables	-	431	2,837	-
Inventories and Prepaid Items	4	-	6	58
Debt Service	-	-	-	-
Unreserved	106,470	49,733	5,802	45,168
TOTAL FUND BALANCES	<u>106,474</u>	<u>50,164</u>	<u>8,645</u>	<u>45,226</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 147,311</u>	<u>\$ 66,921</u>	<u>\$ 9,008</u>	<u>\$ 68,036</u>

ENVIRONMENTAL QUALITY	ENERGY CONSERVATION	STATE BUILDING CORPORATION	NETC LEASING CORPORATION	OTHER SPECIAL REVENUE	TOTALS
\$ 1,631	\$ 17,490	\$ -	\$ -	\$ 2,064	\$ 33,820
9,682	-	543	4,712	5,592	20,529
52,710	-	-	-	76,960	329,529
17,381	-	-	-	23,080	105,976
33	-	-	-	-	194
-	-	-	-	51	733
190,610	13,389	-	-	2,880	210,147
694	223	2	350	6,521	14,545
-	-	-	-	1,420	2,915
-	-	-	-	73	141
-	-	-	-	-	838
<u>\$ 272,741</u>	<u>\$ 31,102</u>	<u>\$ 545</u>	<u>\$ 5,062</u>	<u>\$ 118,641</u>	<u>\$ 719,367</u>
\$ 602	\$ 33	\$ -	\$ 201	\$ 11,872	\$ 24,155
-	-	-	-	738	753
-	-	-	-	708	1,821
-	5	-	-	7,253	9,935
17,381	-	-	-	23,080	105,976
<u>17,983</u>	<u>38</u>	<u>-</u>	<u>201</u>	<u>43,651</u>	<u>142,640</u>
190,610	13,389	-	-	2,880	210,147
-	-	-	-	73	141
9,629	-	545	350	218	10,742
54,519	17,675	-	4,511	71,819	355,697
<u>254,758</u>	<u>31,064</u>	<u>545</u>	<u>4,861</u>	<u>74,990</u>	<u>576,727</u>
<u>\$ 272,741</u>	<u>\$ 31,102</u>	<u>\$ 545</u>	<u>\$ 5,062</u>	<u>\$ 118,641</u>	<u>\$ 719,367</u>

State of Nebraska

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	LICENSING AND REGULATION	ECONOMIC DEVELOPMENT	AIRPORT DEVELOPMENT	GAME AND PARKS
REVENUES:				
Sales and Use Taxes	\$ -	\$ 3,008	\$ -	\$ -
Petroleum Taxes	11,314	636	1,673	-
Excise Taxes	8,138	25,250	-	1,309
Business and Franchise Taxes	3,664	176	-	-
Other Taxes	-	-	-	-
Federal Grants and Contracts	775	6	17,350	8,973
Licenses, Fees and Permits	47,423	-	3	16,127
Charges for Services	948	7	550	3,373
Investment Income	3,396	706	217	979
Rents and Royalties	-	-	792	8,770
Surcharge	54,217	-	-	-
Other	9,361	247	11	743
TOTAL REVENUES	139,236	30,036	20,596	40,274
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	34,579
Culture – Recreation	-	-	-	17,162
Economic Development and Assistance	-	17,505	-	-
Education	-	-	-	-
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	146,358	-	-	-
Transportation	-	-	20,100	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	146,358	17,505	20,100	51,741
Excess of Revenues Over (Under) Expenditures	(7,122)	12,531	496	(11,467)
OTHER FINANCING SOURCES (USES):				
Transfers In	2,503	25,693	330	12,206
Transfers Out	(28,178)	(18,183)	-	-
Proceeds from Other Financing Arrangements	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(25,675)	7,510	330	12,206
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(32,797)	20,041	826	739
FUND BALANCES, JULY 1	139,271	30,123	7,819	44,487
FUND BALANCES, JUNE 30	\$ 106,474	\$ 50,164	\$ 8,645	\$ 45,226

ENVIRONMENTAL QUALITY	ENERGY CONSERVATION	STATE BUILDING CORPORATION	NETC LEASING CORPORATION	OTHER SPECIAL REVENUE	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,008
-	300	-	-	32	13,955
2,433	-	-	-	3,055	40,185
1,498	-	-	-	11,808	17,146
-	-	-	-	5,673	5,673
-	64	-	-	5,510	32,678
4,378	-	-	-	29,688	97,619
6	17	-	-	20,270	25,171
2,019	721	15	151	2,511	10,715
-	-	623	-	1,130	11,315
-	-	-	-	-	54,217
4,888	96	-	-	10,473	25,819
<u>15,222</u>	<u>1,198</u>	<u>638</u>	<u>151</u>	<u>90,150</u>	<u>337,501</u>
-	-	2	-	60,054	60,056
10,899	507	-	-	1,975	47,960
-	-	-	-	1,306	18,468
-	-	-	-	832	18,337
-	-	-	2,723	4,762	7,485
-	-	-	-	823	823
-	-	-	-	33,246	33,246
-	-	-	-	771	147,129
-	-	-	-	-	20,100
665	-	535	3,460	-	4,660
533	-	86	1,123	-	1,742
<u>12,097</u>	<u>507</u>	<u>623</u>	<u>7,306</u>	<u>103,769</u>	<u>360,006</u>
<u>3,125</u>	<u>691</u>	<u>15</u>	<u>(7,155)</u>	<u>(13,619)</u>	<u>(22,505)</u>
13,122	-	-	4,583	22,557	80,994
(60)	-	-	-	(16,251)	(62,672)
5,420	-	-	-	-	5,420
<u>18,482</u>	<u>-</u>	<u>-</u>	<u>4,583</u>	<u>6,306</u>	<u>23,742</u>
21,607	691	15	(2,572)	(7,313)	1,237
<u>233,151</u>	<u>30,373</u>	<u>530</u>	<u>7,433</u>	<u>82,303</u>	<u>575,490</u>
<u>\$ 254,758</u>	<u>\$ 31,064</u>	<u>\$ 545</u>	<u>\$ 4,861</u>	<u>\$ 74,990</u>	<u>\$ 576,727</u>

State of Nebraska

COMBINING BALANCE SHEET NONMAJOR PERMANENT FUNDS

June 30, 2006

(Dollars in Thousands)

	AERONAUTICS TRUST	NEBRASKA VETERANS AID	PERMANENT ENDOWMENT	AGRICULTURE ENDOWMENT	OTHER	TOTALS
ASSETS:						
Cash and Cash Equivalents	\$ -	\$ 1,313	\$ 282	\$ 83	\$ 10	\$ 1,688
Investments	6,103	32,534	891	1,960	451	41,939
Securities Lending Collateral	3,347	817	22	49	24	4,259
Other Receivables, net of allowance	74	273	11	17	6	381
TOTAL ASSETS	<u>\$ 9,524</u>	<u>\$ 34,937</u>	<u>\$ 1,206</u>	<u>\$ 2,109</u>	<u>\$ 491</u>	<u>\$ 48,267</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts Payable and Accrued Liabilities	\$ -	\$ 515	\$ 23	\$ 51	\$ 6	\$ 595
Obligations under Securities Lending	3,347	817	22	49	24	4,259
TOTAL LIABILITIES	<u>3,347</u>	<u>1,332</u>	<u>45</u>	<u>100</u>	<u>30</u>	<u>4,854</u>
FUND BALANCES:						
Reserved for Endowment Principal	6,177	12,000	503	722	145	19,547
Unreserved	-	21,605	658	1,287	316	23,866
TOTAL FUND BALANCES	<u>6,177</u>	<u>33,605</u>	<u>1,161</u>	<u>2,009</u>	<u>461</u>	<u>43,413</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,524</u>	<u>\$ 34,937</u>	<u>\$ 1,206</u>	<u>\$ 2,109</u>	<u>\$ 491</u>	<u>\$ 48,267</u>

State of Nebraska

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR PERMANENT FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	AERONAUTICS TRUST	NEBRASKA VETERANS AID	PERMANENT ENDOWMENT	AGRICULTURE ENDOWMENT	OTHER	TOTALS
REVENUES:						
Investment Income	\$ 63	\$ 2,413	\$ 76	\$ 146	\$ 5	\$ 2,703
TOTAL REVENUES	<u>63</u>	<u>2,413</u>	<u>76</u>	<u>146</u>	<u>5</u>	<u>2,703</u>
EXPENDITURES:						
General Government	-	-	-	-	17	17
Education	-	-	33	74	8	115
Health and Social Services	-	948	-	-	-	948
Transportation	<u>136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136</u>
TOTAL EXPENDITURES	<u>136</u>	<u>948</u>	<u>33</u>	<u>74</u>	<u>25</u>	<u>1,216</u>
Excess of Revenues Over (Under) Expenditures	(73)	1,465	43	72	(20)	1,487
OTHER FINANCING SOURCES (USES):						
Transfers Out	<u>(330)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(330)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(403)	1,465	43	72	(20)	1,157
FUND BALANCES, JULY 1	<u>6,580</u>	<u>32,140</u>	<u>1,118</u>	<u>1,937</u>	<u>481</u>	<u>42,256</u>
FUND BALANCES, JUNE 30	<u><u>\$ 6,177</u></u>	<u><u>\$ 33,605</u></u>	<u><u>\$ 1,161</u></u>	<u><u>\$ 2,009</u></u>	<u><u>\$ 461</u></u>	<u><u>\$ 43,413</u></u>



NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are maintained to account for operations that are financed and operated in a manner similar to private business enterprises—where the costs of providing goods and services to the general public are financed primarily through user charges.

Lottery Fund. This fund accounts for all receipts and expenses from the operations of the State Lottery.

Excess Liability Fund. This fund accounts for the activity resulting from implementation of the Nebraska Hospital-Medical Liability Act. Revenues are primarily insurance premiums from certain health care providers and a surcharge levied on all participating health care providers in Nebraska. Expenses from the fund are used to pay judgments against participating health care providers, up to a limit of \$1,750,000 per occurrence.

Cornhusker State Industries. The activities of Cornhusker State Industries in the Department of Correctional Services are accounted for in this fund. One of the main activities is making furniture.

State of Nebraska

COMBINING STATEMENT OF NET ASSETS NONMAJOR ENTERPRISE FUNDS

June 30, 2006

(Dollars in Thousands)

	LOTTERY	EXCESS LIABILITY	CORNHUSKER STATE INDUSTRIES	TOTALS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 8,067	\$ 14,759	\$ 9,481	\$ 32,307
Receivables, net of allowance	4,426	536	244	5,206
Due from Other Funds	-	-	374	374
Inventories	-	-	1,899	1,899
Prepaid Items	353	-	-	353
TOTAL CURRENT ASSETS	<u>12,846</u>	<u>15,295</u>	<u>11,998</u>	<u>40,139</u>
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	1,734	-	-	1,734
Long-Term Investments	-	46,814	-	46,814
Securities Lending Collateral	-	1,175	-	1,175
Capital Assets:				
Land	-	-	315	315
Buildings and Equipment	420	-	9,163	9,583
Less Accumulated Depreciation	(383)	-	(3,386)	(3,769)
Total Capital Assets, net	<u>37</u>	<u>-</u>	<u>6,092</u>	<u>6,129</u>
TOTAL NONCURRENT ASSETS	<u>1,771</u>	<u>47,989</u>	<u>6,092</u>	<u>55,852</u>
TOTAL ASSETS	<u>\$ 14,617</u>	<u>\$ 63,284</u>	<u>\$ 18,090</u>	<u>\$ 95,991</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 6,780	\$ 769	\$ 784	\$ 8,333
Due to Other Funds	31	-	136	167
Claims, Judgments and Compensated Absences	22	13,220	62	13,304
Unearned Revenue	-	6,542	-	6,542
TOTAL CURRENT LIABILITIES	<u>6,833</u>	<u>20,531</u>	<u>982</u>	<u>28,346</u>
NONCURRENT LIABILITIES:				
Claims, Judgments and Compensated Absences	131	28,280	367	28,778
Obligations under Securities Lending	-	1,175	-	1,175
TOTAL NONCURRENT LIABILITIES	<u>131</u>	<u>29,455</u>	<u>367</u>	<u>29,953</u>
TOTAL LIABILITIES	<u>6,964</u>	<u>49,986</u>	<u>1,349</u>	<u>58,299</u>
NET ASSETS:				
Invested in Capital Assets, net of related debt	37	-	5,777	5,814
Restricted for:				
Lottery Prizes, Noncurrent	1,734	-	-	1,734
Unrestricted	5,882	13,298	10,964	30,144
TOTAL NET ASSETS	<u>7,653</u>	<u>13,298</u>	<u>16,741</u>	<u>37,692</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,617</u>	<u>\$ 63,284</u>	<u>\$ 18,090</u>	<u>\$ 95,991</u>

State of Nebraska

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS NONMAJOR ENTERPRISE FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	LOTTERY	EXCESS LIABILITY	CORNHUSKER STATE INDUSTRIES	TOTALS
OPERATING REVENUES:				
Charges for Services	\$ 113,108	\$ 12,903	\$ 10,849	\$ 136,860
Other	-	-	2	2
TOTAL OPERATING REVENUES	<u>113,108</u>	<u>12,903</u>	<u>10,851</u>	<u>136,862</u>
OPERATING EXPENSES:				
Personal Services	1,321	-	3,665	4,986
Services and Supplies	18,372	499	6,092	24,963
Lottery Prizes	63,722	-	-	63,722
Insurance Claims	-	12,052	-	12,052
Depreciation	25	-	795	820
TOTAL OPERATING EXPENSES	<u>83,440</u>	<u>12,551</u>	<u>10,552</u>	<u>106,543</u>
Operating Income (Loss)	<u>29,668</u>	<u>352</u>	<u>299</u>	<u>30,319</u>
NONOPERATING REVENUES (EXPENSES):				
Investment Income	647	439	380	1,466
Gain (Loss) on Sale of Fixed Assets	-	-	(423)	(423)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>647</u>	<u>439</u>	<u>(43)</u>	<u>1,043</u>
Income (Loss) Before Transfers	30,315	791	256	31,362
Transfers Out	<u>(27,602)</u>	<u>-</u>	<u>-</u>	<u>(27,602)</u>
Change in Net Assets	2,713	791	256	3,760
NET ASSETS, JULY 1	<u>4,940</u>	<u>12,507</u>	<u>16,485</u>	<u>33,932</u>
NET ASSETS, JUNE 30	<u>\$ 7,653</u>	<u>\$ 13,298</u>	<u>\$ 16,741</u>	<u>\$ 37,692</u>

State of Nebraska
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)

	LOTTERY	EXCESS LIABILITY	CORNHUSKER STATE INDUSTRIES	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 112,430	\$ 13,273	\$ 1,608	\$127,311
Cash Received from Interfund Charges	-	-	9,561	9,561
Cash Paid to Employees	(1,309)	-	(3,553)	(4,862)
Cash Paid to Suppliers	(18,197)	(308)	(5,164)	(23,669)
Cash Paid for Lottery Prizes	(62,871)	-	-	(62,871)
Cash Paid for Insurance Claims	-	(10,552)	-	(10,552)
Cash Paid for Interfund Services	(260)	(175)	(527)	(962)
NET CASH FLOWS FROM OPERATING ACTIVITIES	29,793	2,238	1,925	33,956
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	(27,602)	-	-	(27,602)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING:				
Acquisition and Construction of Capital Assets	(18)	-	(921)	(939)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(170,140)	-	(170,140)
Proceeds from Sale of Investment Securities	-	170,477	-	170,477
Interest and Dividend Income	626	2,435	351	3,412
NET CASH FLOWS FROM INVESTING ACTIVITIES	626	2,772	351	3,749
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,799	5,010	1,355	9,164
CASH AND CASH EQUIVALENTS, JULY 1	5,268	9,749	8,126	23,143
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 8,067</u>	<u>\$ 14,759</u>	<u>\$ 9,481</u>	<u>\$ 32,307</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 29,668	\$ 352	\$ 299	\$ 30,319
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation	25	-	795	820
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(678)	-	676	(2)
(Increase) Decrease in Due from Other Funds	-	-	(358)	(358)
(Increase) Decrease in Inventories	-	-	296	296
(Increase) Decrease in Prepaid Items	53	-	-	53
(Increase) Decrease in Long-Term Deposits	10	-	-	10
Increase (Decrease) in Accounts Payable and Accrued Liabilities	707	16	97	820
Increase (Decrease) in Due to Other Funds	8	-	120	128
Increase (Decrease) in Claims Payable	-	1,500	-	1,500
Increase (Decrease) in Unearned Revenue	-	370	-	370
Total adjustments	125	1,886	1,626	3,637
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 29,793</u>	<u>\$ 2,238</u>	<u>\$ 1,925</u>	<u>\$ 33,956</u>
NONCASH TRANSACTIONS (dollars in thousands):				
Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.				
The following noncash transactions occurred during the year:				
Change in Fair Value of Investments	<u>\$ -</u>	<u>\$ (2,064)</u>	<u>\$ -</u>	<u>\$ (2,064)</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of State agencies that provide goods and services to other departments or agencies within State government on a cost-reimbursement basis. The State has the following internal service funds:

Buildings and Grounds. The activities of the Department of Administrative Services, State Building Division, for space rental, office and storage, and operating the parking areas are accounted for in this fund.

General Services. This fund accounts for the operations of central services provided by the Department of Administrative Services, Materiel Division. These operations are the central mailroom, printing, central stores, purchasing services, surplus State property, and other miscellaneous office services.

Communications. This fund accounts for the activities of the central communications network maintained by the Department of Administrative Services, Communications Division.

Information Management Services. The central data processing operations maintained by the Department of Administrative Services, Information Management Services Division, are accounted for in this fund.

Transportation Services Bureau. This fund accounts for the operations of the central motor pool, which is under the Department of Administrative Services, Transportation Services Bureau.

Risk Management. The activities of the Department of Administrative Services, Division of Risk Management, which include workers' compensation and general liability claims, and of the State Employees Insurance Fund, which include life and health insurance programs, are accounted for in this fund.

Accounting Services. The accounting operations maintained by the Department of Administrative Services, State Accounting Division, are accounted for in this fund.

Other Internal Service Funds. This fund accounts for the micrographics services and warehousing of records by the Records Management Division of the Secretary of State, the activities of the Investment Council, and the temporary employee pool maintained by the Department of Administrative Services, Division of State Personnel.

State of Nebraska

COMBINING STATEMENT OF NET ASSETS INTERNAL SERVICE FUNDS

June 30, 2006

(Dollars in Thousands)

	BUILDINGS AND GROUNDS	GENERAL SERVICES	COMMUNICATIONS
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 10,393	\$ 5,411	\$ 4,323
Receivables, net of allowance			
Accounts	40	86	475
Accrued Interest	146	68	47
Due from Other Funds	164	1,944	2,764
Inventories	-	193	9
Prepaid Items	842	197	-
TOTAL CURRENT ASSETS	<u>11,585</u>	<u>7,899</u>	<u>7,618</u>
NONCURRENT ASSETS:			
Capital Assets:			
Buildings and Equipment	2,302	9,661	8,110
Less Accumulated Depreciation	<u>(1,942)</u>	<u>(5,047)</u>	<u>(5,923)</u>
Total Capital Assets, net	<u>360</u>	<u>4,614</u>	<u>2,187</u>
TOTAL ASSETS	<u>\$ 11,945</u>	<u>\$ 12,513</u>	<u>\$ 9,805</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 1,157	\$ 2,611	\$ 2,299
Due to Other Funds	42	1,179	90
Capital Lease Obligations	68	-	-
Claims, Judgments and Compensated Absences	76	69	45
Unearned Revenue	-	-	1,227
TOTAL CURRENT LIABILITIES	<u>1,343</u>	<u>3,859</u>	<u>3,661</u>
NONCURRENT LIABILITIES:			
Capital Lease Obligations	178	-	-
Claims, Judgments and Compensated Absences	<u>452</u>	<u>411</u>	<u>269</u>
TOTAL NONCURRENT LIABILITIES	<u>630</u>	<u>411</u>	<u>269</u>
TOTAL LIABILITIES	<u>1,973</u>	<u>4,270</u>	<u>3,930</u>
NET ASSETS:			
Invested in Capital Assets, net of related debt	114	4,614	2,187
Unrestricted	<u>9,858</u>	<u>3,629</u>	<u>3,688</u>
TOTAL NET ASSETS	<u>9,972</u>	<u>8,243</u>	<u>5,875</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,945</u>	<u>\$ 12,513</u>	<u>\$ 9,805</u>

INFORMATION MANAGEMENT SERVICES	TRANSPORTATION SERVICES	RISK MANAGEMENT	ACCOUNTING SERVICES	OTHER INTERNAL SERVICE	TOTALS
\$ 17,002	\$ 2,554	\$ 29,567	\$ 802	\$ 2,680	\$ 72,732
275	168	24	-	103	1,171
202	33	320	44	28	888
5,572	1,391	47,407	-	461	59,703
-	4	-	-	-	206
-	-	-	-	-	1,039
<u>23,051</u>	<u>4,150</u>	<u>77,318</u>	<u>846</u>	<u>3,272</u>	<u>135,739</u>
13,342	17,698	-	2,893	1,081	55,087
<u>(12,577)</u>	<u>(7,717)</u>	<u>-</u>	<u>(1,734)</u>	<u>(1,013)</u>	<u>(35,953)</u>
765	9,981	-	1,159	68	19,134
<u>\$ 23,816</u>	<u>\$ 14,131</u>	<u>\$ 77,318</u>	<u>\$ 2,005</u>	<u>\$ 3,340</u>	<u>\$ 154,873</u>
\$ 3,323	\$ 629	\$ 5,848	\$ 118	\$ 565	\$ 16,550
320	110	4,578	55	24	6,398
1,312	1,055	-	-	-	2,435
340	9	25,173	35	19	25,766
-	-	-	-	-	1,227
<u>5,295</u>	<u>1,803</u>	<u>35,599</u>	<u>208</u>	<u>608</u>	<u>52,376</u>
2,383	-	-	-	-	2,561
<u>2,020</u>	<u>56</u>	<u>38,422</u>	<u>209</u>	<u>117</u>	<u>41,956</u>
4,403	56	38,422	209	117	44,517
<u>9,698</u>	<u>1,859</u>	<u>74,021</u>	<u>417</u>	<u>725</u>	<u>96,893</u>
(2,930)	8,926	-	1,159	68	14,138
<u>17,048</u>	<u>3,346</u>	<u>3,297</u>	<u>429</u>	<u>2,547</u>	<u>43,842</u>
14,118	12,272	3,297	1,588	2,615	57,980
<u>\$ 23,816</u>	<u>\$ 14,131</u>	<u>\$ 77,318</u>	<u>\$ 2,005</u>	<u>\$ 3,340</u>	<u>\$ 154,873</u>

State of Nebraska

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS INTERNAL SERVICE FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)			
	BUILDINGS AND GROUNDS	GENERAL SERVICES	COMMUNICATIONS
OPERATING REVENUES:			
Charges for Services	\$ 28,034	\$ 18,506	\$ 23,869
Other	855	-	82
TOTAL OPERATING REVENUES	<u>28,889</u>	<u>18,506</u>	<u>23,951</u>
OPERATING EXPENSES:			
Personal Services	3,038	2,961	2,039
Services and Supplies	25,952	14,201	19,209
Insurance Claims	-	-	-
Depreciation	172	775	614
TOTAL OPERATING EXPENSES	<u>29,162</u>	<u>17,937</u>	<u>21,862</u>
 Operating Income (Loss)	 <u>(273)</u>	 <u>569</u>	 <u>2,089</u>
NONOPERATING REVENUES (EXPENSES):			
Investment Income	445	185	160
Gain (Loss) on Sale of Capital Assets	(358)	15	(2)
Other	(9)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>78</u>	<u>200</u>	<u>158</u>
 Income (Loss) Before Transfers	 <u>(195)</u>	 <u>769</u>	 <u>2,247</u>
 Transfers In	 -	 -	 1,100
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
 Change in Net Assets	 <u>(195)</u>	 <u>769</u>	 <u>3,347</u>
 NET ASSETS, JULY 1	 <u>10,167</u>	 <u>7,474</u>	 <u>2,528</u>
NET ASSETS, JUNE 30	<u><u>\$ 9,972</u></u>	<u><u>\$ 8,243</u></u>	<u><u>\$ 5,875</u></u>

INFORMATION MANAGEMENT SERVICES	TRANSPORTATION SERVICES	RISK MANAGEMENT	ACCOUNTING SERVICES	OTHER INTERNAL SERVICE	TOTALS
\$ 42,207	\$ 6,714	\$ 167,866	\$ 3,634	\$ 9,455	\$ 300,285
-	23	-	1,271	85	2,316
<u>42,207</u>	<u>6,737</u>	<u>167,866</u>	<u>4,905</u>	<u>9,540</u>	<u>302,601</u>
15,843	475	165	1,783	6,127	32,431
26,937	2,554	199	1,978	3,271	94,301
-	-	165,558	-	-	165,558
<u>1,309</u>	<u>1,985</u>	<u>-</u>	<u>328</u>	<u>24</u>	<u>5,207</u>
<u>44,089</u>	<u>5,014</u>	<u>165,922</u>	<u>4,089</u>	<u>9,422</u>	<u>297,497</u>
<u>(1,882)</u>	<u>1,723</u>	<u>1,944</u>	<u>816</u>	<u>118</u>	<u>5,104</u>
573	99	1,316	139	87	3,004
5	(448)	-	-	-	(788)
<u>2,022</u>	<u>(62)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,951</u>
<u>2,600</u>	<u>(411)</u>	<u>1,316</u>	<u>139</u>	<u>87</u>	<u>4,167</u>
718	1,312	3,260	955	205	9,271
-	-	-	-	-	1,100
<u>(1,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,100)</u>
(382)	1,312	3,260	955	205	9,271
<u>14,500</u>	<u>10,960</u>	<u>37</u>	<u>633</u>	<u>2,410</u>	<u>48,709</u>
<u>\$ 14,118</u>	<u>\$ 12,272</u>	<u>\$ 3,297</u>	<u>\$ 1,588</u>	<u>\$ 2,615</u>	<u>\$ 57,980</u>

State of Nebraska

COMBINING STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	BUILDINGS AND GROUNDS	GENERAL SERVICES	COMMUNICATIONS
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 651	\$ 79	\$ 1,474
Cash Received from Interfund Charges	28,513	18,203	21,174
Cash Paid to Employees	(3,043)	(2,891)	(1,990)
Cash Paid to Suppliers	(24,461)	(13,454)	(17,350)
Cash Paid for Insurance Claims	-	-	-
Cash Paid for Interfund Services	(1,725)	(407)	(1,251)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(65)	1,530	2,057
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cigarette Tax Proceeds	-	-	-
Transfers In	-	-	1,100
Transfers Out	-	-	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	1,100
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(167)	(1,463)	(1,337)
Proceeds from Sale of Capital Assets	-	6	6
Principal Paid on Capital Leases	(137)	-	-
Interest Paid on Capital Leases	(9)	-	-
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(313)	(1,457)	(1,331)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment Income	425	176	131
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47	249	1,957
CASH AND CASH EQUIVALENTS, JULY 1	<u>10,346</u>	<u>5,162</u>	<u>2,366</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$10,393</u></u>	<u><u>\$ 5,411</u></u>	<u><u>\$ 4,323</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (273)	\$ 569	\$ 2,089
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	172	775	614
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables	(31)	(19)	457
(Increase) Decrease in Due from Other Funds	306	(205)	(2,267)
(Increase) Decrease in Inventories	-	32	47
(Increase) Decrease in Prepaid Items	(65)	110	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(96)	(52)	592
Increase (Decrease) in Due to Other Funds	(78)	320	18
Increase (Decrease) in Claims Payable	-	-	-
Increase (Decrease) in Unearned Revenue	-	-	507
Total Adjustments	208	961	(32)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u><u>\$ (65)</u></u>	<u><u>\$ 1,530</u></u>	<u><u>\$ 2,057</u></u>
NONCASH TRANSACTIONS (dollars in thousands):			
Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments. The following noncash transactions occurred during the year:			
Capital Assets acquired through Capital Leases	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

INFORMATION MANAGEMENT SERVICES	TRANSPORTATION SERVICES	RISK MANAGEMENT	ACCOUNTING SERVICES	OTHER INTERNAL SERVICE	TOTALS
\$ 109	\$ 55	\$ 3,496	\$ 16	\$ 6,268	\$ 12,148
39,971	6,034	169,009	4,908	3,030	290,842
(15,658)	(471)	(163)	(1,745)	(6,046)	(32,007)
(23,937)	(1,814)	(149)	(937)	(2,916)	(85,018)
-	-	(166,208)	-	-	(166,208)
<u>(2,205)</u>	<u>(1,349)</u>	<u>(98)</u>	<u>(1,103)</u>	<u>(172)</u>	<u>(8,310)</u>
<u>(1,720)</u>	<u>2,455</u>	<u>5,887</u>	<u>1,139</u>	<u>164</u>	<u>11,447</u>
2,058	-	-	-	-	2,058
-	-	-	-	-	1,100
<u>(1,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,100)</u>
<u>958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,058</u>
-	(2,843)	-	(1,095)	(20)	(6,925)
2,125	793	-	-	-	2,930
(1,021)	(1,020)	-	-	-	(2,178)
<u>(36)</u>	<u>(62)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107)</u>
<u>1,068</u>	<u>(3,132)</u>	<u>-</u>	<u>(1,095)</u>	<u>(20)</u>	<u>(6,280)</u>
<u>554</u>	<u>109</u>	<u>1,216</u>	<u>124</u>	<u>78</u>	<u>2,813</u>
860	(568)	7,103	168	222	10,038
<u>16,142</u>	<u>3,122</u>	<u>22,464</u>	<u>634</u>	<u>2,458</u>	<u>62,694</u>
<u>\$17,002</u>	<u>\$ 2,554</u>	<u>\$ 29,567</u>	<u>\$ 802</u>	<u>\$ 2,680</u>	<u>\$ 72,732</u>
<u>\$ (1,882)</u>	<u>\$ 1,723</u>	<u>\$ 1,944</u>	<u>\$ 816</u>	<u>\$ 118</u>	<u>\$ 5,104</u>
1,309	1,985	-	328	24	5,207
536	(8)	7	2	(5)	939
(2,663)	(640)	68	17	(237)	(5,621)
-	-	-	-	-	79
-	-	-	-	-	45
771	(667)	(54)	11	245	750
209	62	4,572	(35)	19	5,087
-	-	(650)	-	-	(650)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>507</u>
<u>162</u>	<u>732</u>	<u>3,943</u>	<u>323</u>	<u>46</u>	<u>6,343</u>
<u>\$ (1,720)</u>	<u>\$ 2,455</u>	<u>\$ 5,887</u>	<u>\$ 1,139</u>	<u>\$ 164</u>	<u>\$ 11,447</u>
<u>\$ 2,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,729</u>



FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the State of Nebraska in a fiduciary capacity. The State has the following fiduciary funds:

PENSION TRUST FUNDS

Deferred Compensation, State Employees' Retirement, County Employees' Retirement, Judges' Retirement, State Patrol Retirement, and School Retirement Systems.

PRIVATE PURPOSE TRUST FUNDS

Vocational Rehabilitation Fund. This fund provides rehabilitation services to outside persons to restore the person to gainful employment. Funding comes from assessments to insurance companies and self-insurers. This is not a State program.

Canteen and Welfare Fund. This fund provides entertainment activities and equipment at correctional facilities for youth and adult offenders. Such expenditures are not in the context of the State's responsibility for prisoner care and welfare. Revenues are from vending sales, canteen sales and interest earned. Such sales are 100% from inmate purchases. This is not a State program and uses no State funds.

Escheat Trust Fund. This fund makes payments to rightful owners for financial assets turned over to the State Treasurer because the assets were left unclaimed at corporations, business associations, banking and financial organizations, insurance companies, utilities and public authorities. If the rightful owners cannot be located, excess funds are transferred to the Permanent School Fund. However, the only funds shown in this trust are those funds determined to be paid at a future date to rightful owners of those funds.

College Savings Plan. This fund accounts for the Nebraska savings plan qualified under section 529 of the Internal Revenue Code.

Other Private Purpose Trust Funds. Amos Trust, Agriculture and University Land Lease, Public Service Commission Trust Account, and Miscellaneous Private Purpose Trust.

AGENCY FUNDS

Local Government Fund. This fund receives money for redistribution to counties and other political subdivisions.

Other Agency Funds. Ohio College Library Service, Severance Tax Fund, Court Ordered Settlement, County Court Trust Funds, Comprehensive Health Insurance Pool, the Department of Correctional Services Inmate Trust Funds, and the Health and Human Services System Trust Funds.

State of Nebraska

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

PENSION TRUST FUNDS

June 30, 2006

(Dollars in Thousands)

	DEFERRED COMPENSATION	STATE EMPLOYEES RETIREMENT DEFINED CONTRIBUTION	CASH BALANCE
ASSETS:			
Cash and Cash Equivalents	\$ 67	\$ 1,273	\$ 46
Investments:			
U.S. Treasury Securities	-	-	11,287
Government Agency Securities	-	-	25,671
Corporate Bonds	-	-	12,296
Equity Securities	-	-	45,122
Options	-	-	(30)
Municipal Bonds	-	-	188
Real Estate Investment Trust	-	-	9,567
Pooled Investment Contracts	-	96,458	3,157
Collateral Mortgage Obligations	-	-	4,943
Asset Backed Securities	-	-	4,530
Repurchase Agreements	-	-	2,519
Mutual Funds	-	60,892	28,669
Pooled Funds	-	484,125	205,136
Commercial Paper, Money Market, and Foreign Currency	138,010	56,463	11,596
Total Investments	138,010	697,938	364,651
Securities Lending Collateral	-	2,809	16,062
Receivables:			
Contributions	-	-	2
Interest and Dividends	1	198	1,442
Other	-	-	5,981
Total Receivables	1	198	7,425
Due from Other Funds	1	-	-
Capital Assets:			
Buildings and Equipment	46	1,100	2,104
Less Accumulated Depreciation	(39)	(626)	(681)
Total Capital Assets, net	7	474	1,423
TOTAL ASSETS	\$ 138,086	\$ 702,692	\$ 389,607
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ -	\$ 122	\$ 15,719
Due to Other Funds	1	9	-
Obligations under Securities Lending	-	2,809	16,062
Capital Lease Obligations	9	621	1,355
Accrued Compensated Absences	6	20	10
TOTAL LIABILITIES	16	3,581	33,146
NET ASSETS:			
Held in Trust for Pension Benefits	138,070	699,111	356,461
TOTAL LIABILITIES AND NET ASSETS	\$ 138,086	\$ 702,692	\$ 389,607

COUNTY EMPLOYEES RETIREMENT		SCHOOL RETIREMENT	JUDGES RETIREMENT	STATE PATROL RETIREMENT	TOTALS
DEFINED CONTRIBUTION	CASH BALANCE				
\$ 30	\$ 25	\$ 2,467	\$ 63	\$ 69	\$ 4,040
-	3,260	73,833	1,288	2,976	92,644
-	7,415	415,366	7,248	16,746	472,446
-	3,553	219,020	3,822	8,830	247,521
-	13,033	760,467	13,270	30,659	862,551
-	(9)	(640)	(11)	(26)	(716)
-	54	17,442	304	703	18,691
-	2,763	42,387	740	1,709	57,166
22,128	958	-	-	-	122,701
-	1,428	123,329	2,152	4,972	136,824
-	1,308	105,374	1,839	4,248	117,299
-	728	-	-	-	3,247
12,929	8,281	649,929	11,341	26,202	798,243
115,001	59,250	3,390,090	59,155	136,674	4,449,431
14,530	3,349	206,513	3,603	8,326	442,390
164,588	105,371	6,003,110	104,751	242,019	7,820,438
641	4,639	169,012	2,949	6,814	202,926
282	274	16,669	311	-	17,538
51	416	8,999	158	365	11,630
-	1,728	26,796	468	1,080	36,053
333	2,418	52,464	937	1,445	65,221
-	-	31,112	159	2,197	33,469
502	1,107	8,336	1,633	1,607	16,435
(376)	(358)	(5,086)	(769)	(757)	(8,692)
126	749	3,250	864	850	7,743
<u>\$ 165,718</u>	<u>\$ 113,202</u>	<u>\$ 6,261,415</u>	<u>\$ 109,723</u>	<u>\$ 253,394</u>	<u>\$ 8,133,837</u>
\$ 26	\$ 4,576	\$ 112,706	\$ 1,928	\$ 4,447	\$ 139,524
4	-	42	50	-	106
641	4,639	169,012	2,949	6,814	202,926
255	713	4,073	1,084	1,066	9,176
10	6	197	3	3	255
936	9,934	286,030	6,014	12,330	351,987
164,782	103,268	5,975,385	103,709	241,064	7,781,850
<u>\$ 165,718</u>	<u>\$ 113,202</u>	<u>\$ 6,261,415</u>	<u>\$ 109,723</u>	<u>\$ 253,394</u>	<u>\$ 8,133,837</u>

State of Nebraska

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PENSION TRUST FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	DEFERRED COMPENSATION	STATE EMPLOYEES RETIREMENT DEFINED CONTRIBUTION	CASH BALANCE
ADDITIONS:			
Contributions:			
Participant Contributions	\$ 8,466	\$ 14,747	\$ 9,515
State Contributions	-	23,042	14,885
Political Subdivision Contributions	-	-	-
Court Fees	-	-	-
Total Contributions	8,466	37,789	24,400
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	-	33,569	22,241
Interest and Dividend Income	13,022	-	-
Securities Lending Income	-	85	604
Total Investment Income	13,022	33,654	22,845
Investment Expenses	141	-	-
Securities Lending Expenses	-	82	574
Total Investment Expense	141	82	574
Net Investment Income	12,881	33,572	22,271
Other Additions	73	-	-
TOTAL ADDITIONS	21,420	71,361	46,671
DEDUCTIONS:			
Benefits	9,508	27,149	15,463
Refunds	-	-	-
Administrative Expenses	65	796	781
TOTAL DEDUCTIONS	9,573	27,945	16,244
TRANSFERS:			
Transfers In (Out)	-	(4,429)	4,429
Change in Net Assets	11,847	38,987	34,856
NET ASSETS-BEGINNING OF YEAR	126,223	660,124	321,605
NET ASSETS-END OF YEAR	\$ 138,070	\$ 699,111	\$ 356,461

COUNTY EMPLOYEES RETIREMENT		SCHOOL RETIREMENT	JUDGES RETIREMENT	STATE PATROL RETIREMENT	TOTALS
DEFINED CONTRIBUTION	CASH BALANCE				
\$ 4,500	\$ 3,720	\$ 104,452	\$ 1,061	\$ 3,182	\$ 149,643
6,553	5,521	30,717	72	5,086	85,876
-	-	102,086	-	-	102,086
-	-	-	3,071	-	3,071
<u>11,053</u>	<u>9,241</u>	<u>237,255</u>	<u>4,204</u>	<u>8,268</u>	<u>340,676</u>
7,817	6,553	454,221	8,002	18,631	551,034
-	-	120,928	2,124	4,930	141,004
<u>20</u>	<u>174</u>	<u>8,755</u>	<u>152</u>	<u>353</u>	<u>10,143</u>
7,837	6,727	583,904	10,278	23,914	702,181
-	-	9,052	158	367	9,718
<u>19</u>	<u>166</u>	<u>8,374</u>	<u>146</u>	<u>338</u>	<u>9,699</u>
<u>19</u>	<u>166</u>	<u>17,426</u>	<u>304</u>	<u>705</u>	<u>19,417</u>
<u>7,818</u>	<u>6,561</u>	<u>566,478</u>	<u>9,974</u>	<u>23,209</u>	<u>682,764</u>
-	-	42	-	-	115
<u>18,871</u>	<u>15,802</u>	<u>803,775</u>	<u>14,178</u>	<u>31,477</u>	<u>1,023,555</u>
7,598	3,867	206,243	4,704	11,168	285,700
-	-	11,631	20	146	11,797
<u>354</u>	<u>411</u>	<u>4,229</u>	<u>435</u>	<u>433</u>	<u>7,504</u>
<u>7,952</u>	<u>4,278</u>	<u>222,103</u>	<u>5,159</u>	<u>11,747</u>	<u>305,001</u>
(1,109)	1,109	-	-	-	-
9,810	12,633	581,672	9,019	19,730	718,554
<u>154,972</u>	<u>90,635</u>	<u>5,393,713</u>	<u>94,690</u>	<u>221,334</u>	<u>7,063,296</u>
<u>\$ 164,782</u>	<u>\$ 103,268</u>	<u>\$ 5,975,385</u>	<u>\$ 103,709</u>	<u>\$ 241,064</u>	<u>\$ 7,781,850</u>

State of Nebraska

COMBINING STATEMENT OF FIDUCIARY NET ASSETS **PRIVATE PURPOSE TRUST FUNDS**

June 30, 2006

(Dollars in Thousands)

	VOCATIONAL REHABILITATION	CANTEEN AND WELFARE	ESCHEAT TRUST	COLLEGE SAVINGS PLAN	OTHER	TOTALS
ASSETS:						
Cash and Cash Equivalents	\$ 3,328	\$ 3,231	\$ 3,111	\$ -	\$ 7,894	\$ 17,564
Investments in Mutual Funds	-	-	-	1,251,991	-	1,251,991
Receivables:						
Interest and Dividends	43	42	83	1,143	126	1,437
Other	-	2	-	-	-	2
Other Assets	-	-	11,415	-	855	12,270
TOTAL ASSETS	<u>\$ 3,371</u>	<u>\$ 3,275</u>	<u>\$14,609</u>	<u>\$ 1,253,134</u>	<u>\$ 8,875</u>	<u>\$ 1,283,264</u>
LIABILITIES AND NET ASSETS:						
LIABILITIES:						
Accounts Payable and Accrued Liabilities	\$ 13	\$ 399	\$ 13	\$ 1,802	\$ 33	\$ 2,260
Deposits	-	-	-	-	855	855
Due to Other Funds	-	-	13	-	-	13
TOTAL LIABILITIES	<u>13</u>	<u>399</u>	<u>26</u>	<u>1,802</u>	<u>888</u>	<u>3,128</u>
NET ASSETS:						
Held in Trust for Other Purposes	<u>3,358</u>	<u>2,876</u>	<u>14,583</u>	<u>1,251,332</u>	<u>7,987</u>	<u>1,280,136</u>
TOTAL NET ASSETS	<u>3,358</u>	<u>2,876</u>	<u>14,583</u>	<u>1,251,332</u>	<u>7,987</u>	<u>1,280,136</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,371</u>	<u>\$ 3,275</u>	<u>\$14,609</u>	<u>\$ 1,253,134</u>	<u>\$ 8,875</u>	<u>\$ 1,283,264</u>

State of Nebraska

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)

	VOCATIONAL REHABILITATION	CANTEEN AND WELFARE	ESCHEAT TRUST	COLLEGE SAVINGS PLAN	OTHER	TOTALS
ADDITIONS:						
Contributions:						
Participant Contributions	\$ -	\$ -	\$ -	\$ 392,844	\$ -	\$ 392,844
Client Contributions	-	166	-	-	12	178
Investment Income:						
Net Appreciation (Depreciation) in Fair Value of Investments	-	-	-	48,782	-	48,782
Interest and Dividend Income	172	137	245	31,037	271	31,862
Investment Expenses	-	-	-	7,798	-	7,798
Total Investment Income	172	137	245	72,021	271	72,846
Escheat Revenue	-	-	9,270	-	-	9,270
Other Additions	-	4,440	3	-	371	4,814
TOTAL ADDITIONS	172	4,743	9,518	464,865	654	479,952
DEDUCTIONS:						
Benefits	-	-	-	163,195	-	163,195
Amounts Distributed to Outside Parties	1,760	3,796	7,277	-	4,883	17,716
Administrative Expenses	-	772	776	-	753	2,301
TOTAL DEDUCTIONS	1,760	4,568	8,053	163,195	5,636	183,212
Change in Net Assets Held in Trust for Other Purposes	(1,588)	175	1,465	301,670	(4,982)	296,740
NET ASSETS-BEGINNING OF YEAR	4,946	2,701	13,118	949,662	12,969	983,396
NET ASSETS-END OF YEAR	\$ 3,358	\$ 2,876	\$ 14,583	\$ 1,251,332	\$ 7,987	\$ 1,280,136

State of Nebraska

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES AGENCY FUNDS

June 30, 2006

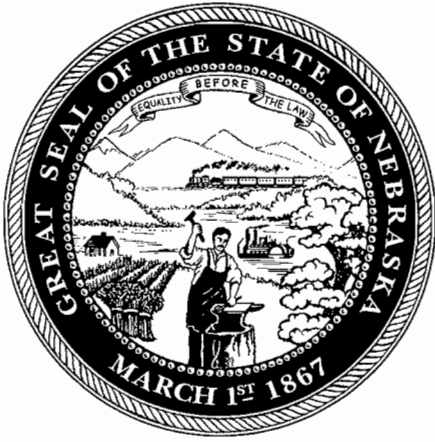
(Dollars in Thousands)

	LOCAL GOVERNMENT FUND	OTHER	TOTALS
ASSETS:			
Cash and Cash Equivalents	\$ 43,826	\$ 43,852	\$ 87,678
Receivables:			
Interest and Dividends Receivable	421	130	551
Other	-	559	559
TOTAL ASSETS	<u>\$ 44,247</u>	<u>\$ 44,541</u>	<u>\$ 88,788</u>
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 159	\$ 17,167	\$ 17,326
Due to Other Governments	44,088	-	44,088
Other Liabilities	-	27,374	27,374
TOTAL LIABILITIES	<u>\$ 44,247</u>	<u>\$ 44,541</u>	<u>\$ 88,788</u>

State of Nebraska
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)	BALANCE JULY 1, 2005	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2006
LOCAL GOVERNMENT FUND				
ASSETS				
Cash and Cash Equivalents	\$ 47,097	\$ 443,185	\$ 446,456	\$ 43,826
Receivables:				
Interest and Dividends Receivable	413	1,154	1,146	421
Other	114	56	170	-
TOTAL ASSETS	<u>\$ 47,624</u>	<u>\$ 444,395</u>	<u>\$ 447,772</u>	<u>\$ 44,247</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 509	\$ 207,441	\$ 207,791	\$ 159
Due to Other Governments	47,115	236,954	239,981	44,088
TOTAL LIABILITIES	<u>\$ 47,624</u>	<u>\$ 444,395</u>	<u>\$ 447,772</u>	<u>\$ 44,247</u>
OTHER				
ASSETS				
Cash and Cash Equivalents	\$ 32,117	\$ 421,396	\$ 409,661	\$ 43,852
Receivables:				
Interest and Dividends Receivable	147	472	489	130
Other	826	11,245	11,512	559
TOTAL ASSETS	<u>\$ 33,090</u>	<u>\$ 433,113</u>	<u>\$ 421,662</u>	<u>\$ 44,541</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 10,267	\$ 54,206	\$ 47,306	\$ 17,167
Due to Other Funds	1,715	-	1,715	-
Other Liabilities	21,108	378,907	372,641	27,374
TOTAL LIABILITIES	<u>\$ 33,090</u>	<u>\$ 433,113</u>	<u>\$ 421,662</u>	<u>\$ 44,541</u>
TOTALS				
ASSETS				
Cash and Cash Equivalents	\$ 79,214	\$ 864,581	\$ 856,117	\$ 87,678
Receivables:				
Interest and Dividends Receivable	560	1,626	1,635	551
Other	940	11,301	11,682	559
TOTAL ASSETS	<u>\$ 80,714</u>	<u>\$ 877,508</u>	<u>\$ 869,434</u>	<u>\$ 88,788</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 10,776	\$ 261,647	\$ 255,097	\$ 17,326
Due to Other Governments	47,115	236,954	239,981	44,088
Due to Other Funds	1,715	-	1,715	-
Other Liabilities	21,108	378,907	372,641	27,374
TOTAL LIABILITIES	<u>\$ 80,714</u>	<u>\$ 877,508</u>	<u>\$ 869,434</u>	<u>\$ 88,788</u>





STATISTICAL SECTION

STATISTICAL SECTION TABLE OF CONTENTSFor the Year Ended June 30, 2006

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This part of the State of Nebraska's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the State's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The state implemented Statement 34 in 2002; schedules presenting government-wide information included information beginning that year.

State of Nebraska
NET ASSETS BY COMPONENT
2002 – 2006

(Dollars in Thousands)

	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$ 6,749,014	\$ 6,909,470	\$ 6,980,310	\$ 7,110,299	\$ 7,269,102
Restricted	1,005,046	933,033	1,050,902	1,099,437	1,566,634
Unrestricted	349,311	134,471	425,811	804,266	681,330
Total governmental activities net assets	<u>\$ 8,103,371</u>	<u>\$ 7,976,974</u>	<u>\$ 8,457,023</u>	<u>\$ 9,014,002</u>	<u>\$ 9,517,066</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 6,994	\$ 6,563	\$ 6,424	\$ 6,235	\$ 6,066
Restricted	222,534	195,802	184,665	213,058	274,537
Unrestricted	16,570	14,358	12,592	26,070	30,144
Total business-type activities net assets	<u>\$ 246,098</u>	<u>\$ 216,723</u>	<u>\$ 203,681</u>	<u>\$ 245,363</u>	<u>\$ 310,747</u>
Primary government					
Invested in capital assets, net of related debt	\$ 6,756,008	\$ 6,916,033	\$ 6,986,734	\$ 7,116,534	\$ 7,275,168
Restricted	1,227,580	1,128,835	1,235,567	1,312,495	1,841,171
Unrestricted	365,881	148,829	438,403	830,336	711,474
Total primary government net assets	<u>\$ 8,349,469</u>	<u>\$ 8,193,697</u>	<u>\$ 8,660,704</u>	<u>\$ 9,259,365</u>	<u>\$ 9,827,813</u>

NOTE: From fiscal years 2005 to 2006, restricted net assets increased significantly due to the implementation of GASB Statement No. 46.

State of Nebraska
CHANGES IN NET ASSETS
2002 – 2006

(Dollars in Thousands)

	2002	2003	2004	2005	2006
Governmental Activities:					
Expenses					
General Government	\$ 251,430	\$ 404,682	\$ 293,586	\$ 320,608	\$ 308,567
Conservation of Natural Resources	99,687	87,746	91,996	95,589	100,476
Culture - Recreation	23,961	28,083	20,352	28,524	27,174
Economic Development and Assistance	86,874	83,974	80,417	79,618	87,299
Education	1,172,967	1,215,793	1,201,349	1,224,973	1,318,123
Higher Education - Colleges and University	466,397	461,325	438,225	451,404	482,229
Health and Social Services	2,167,183	2,219,649	2,329,940	2,494,782	2,593,692
Public Safety	233,666	237,538	254,085	282,474	288,659
Regulation of Business and Professions	104,768	117,235	126,978	139,248	151,853
Transportation	664,228	626,550	715,553	716,259	697,210
Interest on Long-term Debt	2,468	3,808	3,018	2,800	2,556
Total expenses	<u>5,273,629</u>	<u>5,486,383</u>	<u>5,555,499</u>	<u>5,836,279</u>	<u>6,057,838</u>
Program Revenues					
Charges for Services:					
General Government	52,894	57,497	63,919	64,746	73,624
Conservation of Natural Resources	24,704	27,644	31,909	22,049	24,332
Culture - Recreation	17,140	16,441	15,544	16,700	15,977
Economic Development and Assistance	3,763	2,221	3,551	3,600	3,195
Education	25,496	34,810	35,140	27,470	23,346
Health and Social Services	160,294	130,487	152,240	147,720	120,526
Public Safety	23,229	23,275	26,077	27,614	26,183
Regulation of Business and Professions	43,918	112,754	116,772	122,536	113,418
Transportation	82,542	82,414	77,630	95,322	90,951
Operating grants and contributions	1,783,349	1,801,023	2,146,719	2,121,384	2,151,817
Capital grants and contributions	1,360	5,354	6,422	12,245	4,461
Total program revenues	<u>2,218,689</u>	<u>2,293,920</u>	<u>2,675,923</u>	<u>2,661,386</u>	<u>2,647,830</u>
Total Governmental Activities Net Program Expense	<u>(3,054,940)</u>	<u>(3,192,463)</u>	<u>(2,879,576)</u>	<u>(3,174,893)</u>	<u>(3,410,008)</u>
General Revenues and Other Changes in Net Assets					
Taxes					
Income taxes	1,254,699	1,236,845	1,400,161	1,612,683	1,803,670
Sales and use taxes	1,134,048	1,218,045	1,284,260	1,376,100	1,410,980
Petroleum taxes	310,401	311,198	313,539	311,231	312,809
Excise taxes	85,969	108,788	122,462	126,593	134,406
Business and franchise taxes	57,322	59,490	67,322	70,344	79,723
Other taxes	24,366	25,187	33,089	68,885	35,369
Total taxes	<u>2,866,805</u>	<u>2,959,553</u>	<u>3,220,833</u>	<u>3,565,836</u>	<u>3,776,957</u>
Unrestricted investment earnings	65,776	73,888	86,502	117,977	92,892
Miscellaneous	350	-	1,055	5,106	39
Contributions to permanent fund principal	9,938	12,395	11,715	16,581	15,582
Transfers	18,486	20,230	20,591	26,372	27,602
Total general revenues and other changes in net assets	<u>2,961,355</u>	<u>3,066,066</u>	<u>3,340,696</u>	<u>3,731,872</u>	<u>3,913,072</u>
Total Governmental Activities Change in Net Assets	<u>\$ (93,585)</u>	<u>\$ (126,397)</u>	<u>\$ 461,120</u>	<u>\$ 556,979</u>	<u>\$ 503,064</u>

State of Nebraska
CHANGES IN NET ASSETS (Continued)
2002 – 2006

(Dollars in Thousands)

	2002	2003	2004	2005	2006
Business-type Activities:					
Expenses					
Unemployment compensation	\$ 132,284	\$ 160,664	\$ 156,172	\$ 114,496	\$ 101,433
Lottery	56,133	61,455	73,264	77,128	83,440
Excess liability	10,756	13,796	14,595	1,984	12,551
Cornhusker State Industries	9,043	6,103	7,868	10,509	10,552
Total expenses	<u>208,216</u>	<u>242,018</u>	<u>251,899</u>	<u>204,117</u>	<u>207,976</u>
Revenues					
Charges for services:					
Unemployment compensation	133,766	123,393	132,379	133,840	154,413
Lottery	73,957	80,919	92,608	100,658	113,108
Excess liability	3,264	6,686	9,683	10,949	12,903
Cornhusker State Industries	9,783	5,196	9,598	13,022	10,851
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total revenues	<u>220,770</u>	<u>216,194</u>	<u>244,268</u>	<u>258,469</u>	<u>291,275</u>
Total Business-type Activities Net Program Expense	<u>12,554</u>	<u>(25,824)</u>	<u>(7,631)</u>	<u>54,352</u>	<u>83,299</u>
Other Changes in Net Assets					
Unrestricted investment earnings	15,120	16,679	15,183	13,705	10,110
Miscellaneous	-	-	(3)	(3)	(423)
Transfers	(18,486)	(20,230)	(20,591)	(26,372)	(27,602)
Total other changes in net assets	<u>(3,366)</u>	<u>(3,551)</u>	<u>(5,411)</u>	<u>(12,670)</u>	<u>(17,915)</u>
Total Business-type Activities Change in Net Assets	<u>\$ 9,188</u>	<u>\$ (29,375)</u>	<u>\$ (13,042)</u>	<u>\$ 41,682</u>	<u>\$ 65,384</u>
 Total Primary Government Change in Net Assets	 <u>\$ (84,397)</u>	 <u>\$ (155,772)</u>	 <u>\$ 448,078</u>	 <u>\$ 598,661</u>	 <u>\$ 568,448</u>

NOTE: The increases in taxes and change in net assets from 2004 to 2006 were primarily due to a strengthening economy.



State of Nebraska
FUND BALANCES
GOVERNMENTAL FUNDS
2002 – 2006

(Dollars in thousands)

	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 87	\$ 274	\$ 525	\$ 532	\$ 482
Unreserved	80,612	(17,319)	207,282	408,771	691,757
Total general fund	<u>\$ 80,699</u>	<u>\$ (17,045)</u>	<u>\$ 207,807</u>	<u>\$ 409,303</u>	<u>\$ 692,239</u>
All Other Governmental Funds					
Reserved	\$ 306,141	\$ 333,228	\$ 347,660	\$ 377,818	\$ 619,319
Unreserved					
Special revenue funds	837,007	765,310	879,041	936,316	893,536
Permanent funds	189,612	197,586	224,869	250,127	77,768
Other funds	22,514	30,030	32,206	34,295	47,071
Total all other governmental funds	<u>\$ 1,355,274</u>	<u>\$ 1,326,154</u>	<u>\$ 1,483,776</u>	<u>\$ 1,598,556</u>	<u>\$ 1,637,694</u>

State of Nebraska
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
1997 – 2006

(Dollars in Thousands)

	1997	1998	1999	2000
REVENUES:				
Taxes:				
Income	\$ 1,075,095	\$ 1,121,849	\$ 1,199,499	\$ 1,310,210
Sales and Use	857,684	910,437	868,620	1,083,692
Petroleum	266,852	269,761	266,419	280,700
Excise	93,715	94,557	94,142	95,324
Business and Franchise	33,195	31,486	40,396	42,095
Other	22,679	25,480	24,590	27,735
Total Taxes	2,349,220	2,453,570	2,493,666	2,839,756
Federal Grants and Contracts	1,130,846	1,263,946	1,400,439	1,557,699
Licenses, Fees and Permits	145,598	146,128	154,352	160,915
Charges for Services	73,571	68,634	75,343	78,647
Investment Income	99,956	125,904	93,522	91,173
Rents and Royalties	32,561	31,614	31,954	34,123
Other	46,413	73,267	115,983	181,894
TOTAL REVENUES	3,878,165	4,163,063	4,365,259	4,944,207
EXPENDITURES:				
Current:				
General Government	185,585	187,370	203,011	215,098
Conservation of Natural Resources	67,638	73,637	82,049	95,824
Culture – Recreation	20,094	21,311	22,588	22,754
Economic Development and Assistance	68,133	71,240	74,672	80,559
Education	827,735	853,687	1,032,960	1,080,926
Higher Education - Colleges and University	376,718	392,403	404,314	429,865
Health and Social Services	1,342,694	1,469,078	1,646,773	1,794,428
Public Safety	152,321	170,797	177,519	189,850
Regulation of Business and Professions	44,464	42,367	42,930	68,044
Transportation	622,572	600,957	658,509	760,048
Capital Projects	11,899	18,404	23,177	66,478
Debt Service				
Principal	2,100	2,370	4,880	13,065
Interest	1,198	1,097	1,017	1,288
TOTAL EXPENDITURES	3,723,151	3,904,718	4,374,399	4,818,227
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	155,014	258,345	(9,140)	125,980
OTHER FINANCING SOURCES (USES)				
Transfers In	113,205	104,979	123,474	174,364
Transfers Out	(89,388)	(86,071)	(106,603)	(158,142)
Other	7,912	3,002	55	30,636
NET CHANGE IN FUND BALANCE	186,743	280,255	7,786	172,838
Restatements	25,496	-	-	-
BEGINNING FUND BALANCE	815,098	1,027,337	1,307,592	1,315,378
ENDING FUND BALANCE	<u>\$ 1,027,337</u>	<u>\$ 1,307,592</u>	<u>\$ 1,315,378</u>	<u>\$ 1,488,216</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<1%	<1%	<1%	<1%

NOTE: The increases in taxes and fund balances from 2004 to 2006 were primarily due to a strengthening economy.
The increase of general government expenditures in 2005 was due to settling a low-level radioactive waste lawsuit.

2001	2002	2003	2004	2005	2006
\$ 1,374,256	\$ 1,252,950	\$ 1,237,075	\$ 1,402,371	\$ 1,610,008	\$ 1,802,161
1,068,832	1,135,014	1,215,621	1,283,592	1,376,675	1,411,152
291,545	309,245	311,198	313,539	311,231	312,809
86,518	83,567	107,227	122,320	124,525	132,348
56,420	57,321	59,490	67,322	70,344	79,723
35,621	24,912	25,187	33,089	68,885	35,369
<u>2,913,192</u>	<u>2,863,009</u>	<u>2,955,798</u>	<u>3,222,233</u>	<u>3,561,668</u>	<u>3,773,562</u>
1,591,531	1,789,617	1,806,377	2,153,141	2,133,629	2,156,278
159,338	169,748	177,317	183,314	198,970	196,966
81,691	82,058	74,470	82,320	93,654	82,132
114,774	57,660	71,225	83,702	115,540	89,888
33,711	33,586	44,561	39,845	41,437	45,951
146,874	148,168	196,148	222,577	201,814	172,545
<u>5,041,111</u>	<u>5,143,846</u>	<u>5,325,896</u>	<u>5,987,132</u>	<u>6,346,712</u>	<u>6,517,322</u>
268,235	225,446	252,230	240,354	405,798	296,209
94,481	102,401	88,716	92,682	98,067	104,118
24,059	29,002	26,844	26,081	28,313	26,392
81,045	86,401	83,378	80,531	81,172	87,462
1,089,059	1,172,525	1,208,046	1,203,430	1,223,461	1,318,785
442,176	466,397	461,325	438,225	451,404	482,229
1,960,469	2,159,887	2,219,154	2,337,338	2,475,952	2,605,402
197,363	238,874	236,277	262,344	285,732	287,735
81,855	104,364	116,560	127,079	139,086	151,850
670,896	750,704	752,810	794,342	844,709	837,796
45,321	25,961	27,773	19,162	19,048	25,101
3,125	8,805	3,830	4,145	5,525	4,660
1,699	1,886	1,934	1,971	1,852	1,742
<u>4,959,783</u>	<u>5,372,653</u>	<u>5,478,877</u>	<u>5,627,684</u>	<u>6,060,119</u>	<u>6,229,481</u>
81,328	(228,807)	(152,981)	359,448	286,593	287,841
151,673	151,187	147,825	126,343	152,721	171,981
(129,619)	(130,025)	(126,721)	(104,664)	(126,349)	(144,379)
2,947	37,719	5,013	1,347	3,311	6,631
106,329	(169,926)	(126,864)	382,474	316,276	322,074
-	11,354	-	-	-	-
<u>1,488,216</u>	<u>1,594,545</u>	<u>1,435,973</u>	<u>1,309,109</u>	<u>1,691,583</u>	<u>2,007,859</u>
<u>\$ 1,594,545</u>	<u>\$ 1,435,973</u>	<u>\$ 1,309,109</u>	<u>\$ 1,691,583</u>	<u>\$ 2,007,859</u>	<u>\$ 2,329,933</u>
<1%	<1%	<1%	<1%	<1%	<1%

State of Nebraska
INDIVIDUAL INCOME TAX RATES
 1996-2005

	Tax Brackets			
	Bracket 1	Bracket 2	Bracket 3	Bracket 4
Single				
Income Range	\$0-2,400	\$2,400-17,000	\$17,000-26,500	Over \$26,500
1996 Rate	2.62%	3.65%	5.24%	6.99%
1997 - 2002 Rates	2.51%	3.49%	5.01%	6.68%
2003 - 2005 Rates	2.56%	3.57%	5.12%	6.84%
Heads of Household				
Income Range	\$0-3,800	\$3,800-24,000	\$24,000-35,000	Over \$35,000
1996 Rate	2.62%	3.65%	5.24%	6.99%
1997 - 2002 Rates	2.51%	3.49%	5.01%	6.68%
2003 - 2005 Rates	2.56%	3.57%	5.12%	6.84%
Married Filing Joint				
Income Range	\$0-4,000	\$4,000-30,000	\$30,000-46,750	Over \$46,750
1996 Rate	2.62%	3.65%	5.24%	6.99%
1997 - 2002 Rates	2.51%	3.49%	5.01%	6.68%
2003 - 2005 Rates	2.56%	3.57%	5.12%	6.84%
Married Filing Separate				
Income Range	\$0-2,000	\$2,000-15,000	\$15,000-23,375	Over \$23,375
1996 Rate	2.62%	3.65%	5.24%	6.99%
1997 - 2002 Rates	2.51%	3.49%	5.01%	6.68%
2003 - 2005 Rates	2.56%	3.57%	5.12%	6.84%

SOURCE: 2005 Nebraska Department of Revenue Annual Report

State of Nebraska

INDIVIDUAL INCOME TAX LIABILITY BY INCOME LEVEL

Tax Years 1995 and 2004

1995				
Federal Adjusted Gross Income Level	Number of Returns	Net Liability After Nonrefundable Credits	Number of Returns With Liability	Net Liability Percent
Less Than \$5,000	149,723	\$1,424,426	27,009	0.18%
\$5,000 -14,999	143,405	\$15,164,626	119,053	1.94%
\$15,000 - 24,999	147,794	\$50,113,821	142,111	6.42%
\$25,000 - 34,999	100,074	\$64,955,191	98,526	8.32%
\$35,000 and Over	260,987	\$649,508,452	257,588	83.15%
State Total	801,983	\$781,166,516	644,287	100.00%

2004				
Federal Adjusted Gross Income Level	Number of Returns	Net Liability After Nonrefundable Credits	Number of Returns With Liability	Net Liability Percent
Less Than \$10	176,083	\$4,739,697	47,833	0.36%
\$10 - 24,999	190,678	\$42,346,154	164,829	3.23%
\$25,000 - 49,999	218,793	\$180,788,973	215,150	13.77%
\$50,000 - 99,999	192,974	\$437,276,413	191,287	33.31%
\$100,000 +	72,968	\$647,594,584	70,841	49.33%
State Total	851,496	\$1,312,745,821	689,940	100.00%

SOURCE: Department of Revenue Annual Reports

NOTE: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the state's revenue. Calendar year 2004 is the most recent year for which data is available.

State of Nebraska
TAXABLE SALES BY INDUSTRY
 Calendar Years 1996 and 2005

	1996	2005
Agriculture, Forestry, Fishing & Hunting	\$90,292,460	\$141,059,319
Mining	27,889,723	44,328,694
Utilities		1,744,317,928
Construction	224,540,182	934,402,214
Manufacturing	274,969,328	572,185,675
Wholesale Trade	964,698,457	1,165,449,269
Retail Trade	7,413,050,645	8,742,194,505
Transportation	1,891,617,706	92,360,959
Warehousing		4,142,358
Information		801,390,714
Finance & Insurance	90,096,378	53,772,695
Real Estate, Rental & Leasing Services		119,978,398
Professional, Scientific & Technical Services		281,435,497
Management of Companies & Enterprises		2,896,179
Admin, Support, Waste Mgt, Remed Services		515,887,718
Educational Services		62,582,827
Health Care & Social Assistance		35,209,604
Arts, Entertainment & Recreation		282,874,360
Accommodation & Food Services		2,201,265,354
Other Services (1)	1,721,410,869	889,382,735
Public Administration	81,532,233	110,779,156
Unclassified	86,925,708	27,343,850
Nebraska Total	12,867,023,689	18,825,240,008
Non-Nebraska (2)	1,918,127,002	2,865,964,477
Nebraska - Total Sales	<u>\$14,785,150,691</u>	<u>\$21,691,204,485</u>
Direct sales tax rate	5%	5.5%

SOURCE: Nebraska Department of Revenue - Annual Report
 Sales Tax Statistics by Nebraska Business Classification

NOTES: (1) All services were listed as a single figure in 1996.
 (2) Sales made by non-Nebraska vendors, goods delivered to Nebraska, sales tax remitted to Nebraska

State of Nebraska

RATIOS OF OUTSTANDING DEBT

2002 – 2006

(Dollars in thousands)					
	2002	2003	2004	2005	2006
Governmental Activities					
Lease rental bonds (blended component units)	\$ 33,210	\$ 30,960	\$ 27,265	\$ 23,430	\$ 19,435
Capital leases under certificates of participation	31,885	29,836	27,235	24,927	22,965
Obligations under other financing arrangements	<u>7,185</u>	<u>10,555</u>	<u>11,230</u>	<u>11,430</u>	<u>16,185</u>
Total Primary Government	<u><u>\$ 72,280</u></u>	<u><u>\$ 71,351</u></u>	<u><u>\$ 65,730</u></u>	<u><u>\$ 59,787</u></u>	<u><u>\$ 58,585</u></u>
Debt as a Percentage of Personal Income	0.14%	0.13%	0.12%	0.10%	0.10% *
Amount of Debt per Capita	\$ 42	\$ 41	\$ 38	\$ 34	\$ 33 *

NOTE: Details regarding Bonds Payable, Lease Commitments and Obligations Under Other Financing Arrangements can be found in Notes 8, 9 & 10 of the financial statements.

Population figures from the Population, Personal and Per Capita Income schedule on page 121.

* 2006 figures were computed using 2005 census information as 2006 census data is not available.

State of Nebraska

COMPARATIVE UNEMPLOYMENT NEBRASKA AND UNITED STATES

1996 – 2005

YEAR	NEBRASKA			NEBRASKA UNEMPLOYMENT AS PERCENT OF LABOR FORCE	UNITED STATES UNEMPLOYMENT AS PERCENT OF LABOR FORCE
	TOTAL LABOR FORCE	TOTAL EMPLOYMENT	UNEMPLOYMENT		
1996	909,932	883,284	26,648	2.9%	5.4%
1997	906,256	882,615	23,641	2.6	4.9
1998	916,440	891,709	24,731	2.7	4.5
1999	911,831	885,755	26,076	2.9	4.2
2000	924,298	896,761	27,537	3.0	4.0
2001	928,297	899,429	28,868	3.1	4.7
2002	954,013	920,662	33,351	3.5	5.8
2003	976,034	936,664	39,370	4.0	6.0
2004	985,340	947,882	37,458	3.8	5.5
2005	986,296	949,070	37,226	3.8	5.1

SOURCE: Nebraska Statistics – Nebraska Department of Labor, Labor Market Information
United States Unemployment – U.S. Department of Labor, Bureau of Labor Statistics

State of Nebraska

POPULATION, PERSONAL AND PER CAPITA INCOME NEBRASKA AND UNITED STATES

Calendar Years 1996 – 2005

YEAR	NEBRASKA			UNITED STATES		
	POPULATION	PERSONAL INCOME (IN MILLIONS)	PER CAPITA INCOME	POPULATION	PERSONAL INCOME (IN MILLIONS)	PER CAPITA INCOME
1996	1,673,740	39,382	23,530	269,394,284	6,512,485	24,175
1997	1,686,418	40,576	24,061	272,646,925	6,907,332	25,334
1998	1,695,816	43,314	25,542	275,854,104	7,415,709	26,883
1999	1,704,764	45,116	26,465	279,040,168	7,796,139	27,939
2000	1,713,261	47,329	27,625	282,193,477	8,422,074	29,845
2001	1,718,965	49,303	28,682	285,107,923	8,716,992	30,574
2002	1,726,753	50,390	29,182	287,984,799	8,872,521	30,810
2003	1,738,013	53,388	30,718	290,850,005	9,150,108	31,463
2004	1,747,704	55,858	31,961	293,656,842	9,717,173	33,090
2005	1,758,787	58,019	32,988	296,410,404	10,224,761	34,495

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

State of Nebraska

TEN LARGEST EMPLOYERS

2005 and 1995

December 2005				December 1995		
Total Employment		949,070		Total Employment		874,357
NAME OF COMPANY	RANK	NUMBER OF EMPLOYEES	% OF TOTAL EMPLOYMENT	RANK	NUMBER OF EMPLOYEES	% OF TOTAL EMPLOYMENT
State of Nebraska (excluding University)	1	18,653	1.965	1	17,700	2.024
US Government (excluding Department of Defense)	2	15,403	1.623	2	16,000	1.830
Offutt Air Force Base	3	11,137	1.173	4	11,000	1.258
Tyson Foods, Inc. (1995-IBP)	4	11,000	1.159	5	9,400	1.075
University of Nebraska *	5	10,547	1.111	3	14,900	1.704
Walmart	6	9,755	1.028	12	4,800	0.549
Omaha Public Schools	7	8,073	0.851	6	8,600	0.984
Union Pacific Corporation	8	7,200	0.759	8	6,300	0.721
Alegent Health **	9	6,675	0.703	11	5,100	0.583
First Data Corp.	10	6,300	0.664	7	8,000	0.915
Mutual of Omaha Ins. Co.				9	6,000	0.686
ConAgra				10	5,900	0.675

* University of Nebraska - Medical Center, University of Nebraska - Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney

** Alegent was formed from the 1995 employers Bergan Mercy Hospital and Immanuel Medical Center

SOURCE: 2005 -Nebraska Databook published by the Department of Economic Development, Research Division

1995- Nebraska Blue Book 1996-97

State of Nebraska

**PUBLIC AND STATE OPERATED SCHOOL ENROLLMENT
PREKINDERGARTEN – GRADE 12**

1996/97 – 2005/06

ACADEMIC YEAR	PRE KDG. AND KDG.	GRADES 1 – 3	GRADES 4 – 6	GRADES 7 – 9	GRADES 10 – 12	TOTAL ALL GRADES
1996 – 1997	25,599	64,800	66,058	69,937	65,023	291,417
1997 – 1998	25,543	65,014	64,721	70,452	66,389	292,119
1998 – 1999	25,740	64,664	64,256	69,991	66,485	291,136
1999 – 2000	25,219	63,118	64,409	69,099	66,386	288,231
2000 – 2001	25,216	60,896	64,942	67,392	66,576	285,022
2001 – 2002	25,931	60,645	64,003	68,566	66,251	285,396
2002 – 2003	25,931	60,645	64,003	68,546	66,257	285,382
2003 – 2004	26,639	60,673	63,120	69,359	65,751	285,542
2004 – 2005	26,848	61,011	62,210	69,253	65,237	284,559
2005 – 2006	28,028	61,593	61,478	68,325	66,124	285,548

SOURCE: Statistics and Facts About Nebraska Schools, Nebraska Department of Education.

State of Nebraska

**PUBLIC HIGHER EDUCATION INSTITUTIONS
TOTAL FALL HEADCOUNT ENROLLMENT**

1996 – 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
COLLEGES AND UNIVERSITIES:										
Chadron State College	2,905	2,931	2,809	2,768	2,686	2,804	2,712	2,667	2,569	2,472
Peru State College	1,774	1,807	1,695	1,664	1,698	1,629	1,687	1,618	1,683	1,959
Wayne State College	3,828	3,839	3,835	3,601	3,518	3,311	3,220	3,305	3,398	3,322
University of Nebraska										
Lincoln (1)	24,189	23,104	22,669	22,394	22,502	22,998	23,241	22,734	22,012	21,937
Omaha	14,474	13,710	13,274	13,264	13,479	14,143	14,451	13,931	13,824	14,093
Kearney	7,680	7,133	6,849	6,780	6,506	6,426	6,395	6,311	6,382	6,445
Medical Center	2,718	2,618	2,599	2,590	2,696	2,724	2,819	2,865	2,904	2,995
TOTAL COLLEGES AND UNIVERSITIES	<u>57,568</u>	<u>55,142</u>	<u>53,730</u>	<u>53,061</u>	<u>53,085</u>	<u>54,035</u>	<u>54,525</u>	<u>53,431</u>	<u>52,772</u>	<u>53,223</u>
COMMUNITY COLLEGES										
Central CC (2)	6,476	6,743	7,474	7,095	7,126	6,399	6,417	6,364	6,524	6,564
Metropolitan CC	10,759	11,213	11,583	11,658	11,534	11,704	12,253	12,177	12,961	13,237
Mid-Plains CC	2,925	2,694	2,487	2,518	2,607	2,816	3,020	3,001	2,957	2,607
Northeast CC	4,235	4,440	4,754	4,671	4,520	4,600	4,832	4,805	5,053	5,101
Southeast CC	7,041	6,951	7,122	7,351	7,396	7,935	8,912	8,451	10,079	10,059
Western CC	1,960	2,008	1,704	1,836	2,264	2,150	2,152	2,420	2,659	2,283
TOTAL COMMUNITY COLLEGES	<u>33,396</u>	<u>34,049</u>	<u>35,124</u>	<u>35,129</u>	<u>35,447</u>	<u>35,604</u>	<u>37,586</u>	<u>37,218</u>	<u>40,233</u>	<u>39,851</u>
TOTAL ALL INSTITUTIONS	<u>90,964</u>	<u>89,191</u>	<u>88,854</u>	<u>88,190</u>	<u>88,532</u>	<u>89,639</u>	<u>92,111</u>	<u>90,649</u>	<u>93,005</u>	<u>93,074</u>

NOTE: (1) University of Nebraska-Lincoln count includes NCTA-Curtis for all years.

(2) Central CC reporting under continuous enrollment practice abandoned in 1996. Enrollment numbers have been retroactively changed to the reporting practice consistent with that of the other Community Colleges.

SOURCE: Nebraska Coordinating Commission for Postsecondary Education

State of Nebraska

**FULL TIME EQUIVALENT PERMANENT
EMPLOYEES BY FUNCTION**

1996 – 2005

FUNCTION	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Conservation	294	292	310	305	340	307	305	308	316	313
Regulation	353	352	359	359	358	348	351	345	355	358
Economic Development	570	566	570	571	529	525	537	528	542	526
Culture and Recreation	532	534	539	548	560	565	584	580	569	579
Education	676	628	595	568	572	591	575	578	587	597
Transportation	2,298	2,297	2,312	2,297	2,256	2,239	2,201	2,182	2,193	2,175
General Government	2,456	2,524	2,646	2,715	2,783	2,891	2,853	2,612	2,687	2,718
Public Safety	2,714	2,715	2,700	2,716	2,765	2,939	3,199	3,285	3,260	3,303
Health & Social Services	5,799	5,850	5,877	5,918	5,907	5,898	5,834	6,076	6,056	6,115
	<u>15,693</u>	<u>15,759</u>	<u>15,907</u>	<u>15,995</u>	<u>16,069</u>	<u>16,303</u>	<u>16,438</u>	<u>16,493</u>	<u>16,565</u>	<u>16,683</u>

SOURCE: Nebraska State Government - State Personal Division - 2006 Almanac

State of Nebraska

OPERATING INDICATORS BY FUNCTION

2002 – 2006

	2002	2003	2004	2005	2006
<u>General Government</u>					
Department of Revenue					
Percentage of returns filed electronically	N/A	N/A	N/A	53.6%	57.6%
Percentage of direct deposit refunds	N/A	N/A	N/A	39.7%	43.9%
Department of Roads					
Percentage of Roads in very good or good condition (1)	81%	84%	85%	85%	N/A
<u>Conservation of Natural Resources</u>					
Department of Environmental Quality					
Inspections by field office staff					
Air Quality	N/A	N/A	N/A	N/A	82
Water Quality	N/A	N/A	N/A	N/A	543
Waste Management	N/A	N/A	N/A	N/A	110
<u>Culture - Recreation</u>					
Game and Parks Commission					
Park visitors (1,2)	9,725,928	9,885,628	10,085,789	10,293,381	N/A
Hatchery fish raised (in millions) (1)	4.8	5.2	14.2	6.8	N/A
<u>Education</u>					
Department of Education					
Enrollment					
Pre-K to 12th grade	285,396	285,382	285,542	284,559	285,548
State Colleges and Universities (3)	54,525	53,431	52,772	53,223	53,952
Public Community Colleges (3)	37,586	37,218	40,233	39,851	40,976
<u>Health and Social Services</u>					
Health and Human Services					
Child Support Payments					
Number of Payments Received	N/A	N/A	1,266,853	1,316,154	1,344,778
Number of Payments Disbursed	N/A	N/A	1,111,672	1,127,651	1,153,771
Medicaid (average monthly)					
Medicaid recipients	203,760	201,534	197,152	198,757	200,670
Percentage of Nebraska population	11.8%	11.6%	11.3%	11.4%	N/A
Food Stamps (average monthly)					
Number of households	37,132	41,620	47,292	49,726	51,146
Percentage of Nebraska households	5.5%	6.2%	6.9%	7.1%	N/A
<u>Public Safety</u>					
Department of Correctional Services					
Inmate population (average monthly) (1)	4,446	4,871	4,938	5,010	N/A
Percentage of Nebraska population	0.26%	0.28%	0.28%	0.29%	N/A
Total Admissions (1)	2,505	2,753	2,662	2,924	N/A
Total Releases (1)	2,365	2,643	2,902	2,800	N/A
State Patrol					
Miles Patrolled (1)	4,775,016	4,608,046	4,544,473	4,415,514	N/A
Accidents Investigated (1)	2,736	2,557	2,228	2,960	N/A
<u>Transportation</u>					
Department of Motor Vehicles					
Motor Vehicle Registrations (1)					
Automobiles	1,076,415	1,081,868	1,088,620	1,106,684	N/A
Trucks					
Farm	148,456	147,571	148,278	148,625	N/A
Commercial / Other	372,929	378,615	383,024	389,947	N/A
Motorcycles	26,931	29,794	32,916	36,622	N/A

NOTES: (1) Data is provided on a calendar basis.
 (2) Park visitation is counted in daily visits.
 N/A - Not Available

SOURCE: State Agencies: Department of Revenue, Department of Roads, Department of Environmental Quality, Game and Parks Commission, Department of Education, Health and Human Services, Department of Correctional Services, Nebraska State Patrol, Department of Motor Vehicles

(3) National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS)
 The 2006 numbers have not been certified.

State of Nebraska

CAPITAL ASSET STATISTICS BY FUNCTION

2002 – 2006

	2002	2003	2004	2005	2006
<u>General Government</u>					
Department of Administrative Services					
Buildings	285	285	285	285	285
Vehicles	1,083	1,264	1,182	1,006	1,034
<u>Conservation of Natural Resources</u>					
Game and Parks Commission					
Acres of state park and wildlife land (in thousands)	138	140	143	146	148
<u>Culture - Recreation</u>					
Game and Parks Commission					
State Parks	8	8	8	8	8
Historical Parks	10	10	10	10	10
Recreation and wildlife areas	320	320	320	336	336
Fish hatcheries	5	5	5	5	5
<u>Education</u>					
NETV Commission					
Towers, antennas and transmitters	42	60	60	60	56
<u>Public Safety</u>					
State Patrol					
Pursuit Vehicles	414	429	479	442	364
Department of Corrections					
Buildings	112	126	126	124	129
<u>Transportation</u>					
Department of Roads					
Highway miles	9,969	9,959	9,959	9,953	9,953
Heavy trucks, plows and graders	1,072	1,087	1,085	1,083	1,068

NOTE: Other agencies including those in the Economic Development, Health and Social Services and Regulation functional areas are not capital asset intensive.

SOURCE: State Agencies: Department of Administrative Services, Game and Parks Commission, NETV Commission, Nebraska State Patrol, Department of Correctional Services, and Department of Roads

State of Nebraska

MISCELLANEOUS DATA

June 30, 2006

Date Entered Union	March 1, 1867 (37th State)
Form of Government	Legislative – Executive – Judicial
Land Area	77,358 square miles (16th largest in U.S.)
Elevation	840 to 5,424 feet above sea level
Capital	Lincoln
Largest City	Omaha
Origin of Name	From Oto Indian word "Nebrathka" meaning "flat water"
Nickname	Cornhusker State (from method of harvesting or "husking" corn by hand)

SOURCE: Nebraska Blue Book, 2004-2005.

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